



GROWING TOGETHER

Oklahoma City Employee Retirement System

A Pension Trust Fund of Oklahoma City

Comprehensive Annual Financial Report | the City of Oklahoma City, Oklahoma | for the Fiscal Year ended June 30, 2012

OKLAHOMA CITY EMPLOYEE RETIREMENT SYSTEM

A Pension Trust Fund of
Oklahoma City, Oklahoma

Board of Trustees

W. B. Smith, Chairman

Ken Culver, Vice-Chairman

Frances Kersey, Secretary (ex-officio)

Robert Ponkilla, Treasurer (ex-officio)

Dianna Berry

Paul Bronson

David Adcock

Dennis Spencer

Florence Melton

Jim Williamson

Craig Freeman

Randy Thurman

Jacqueline Ames

Management

Rena Hutton, Administrator

Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2012

Prepared by The Oklahoma City Finance Department, Accounting Services Division
Glen D. Earley, Controller

OKLAHOMA CITY EMPLOYEE RETIREMENT SYSTEM

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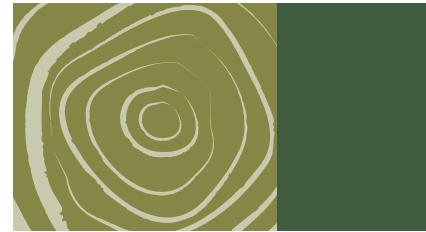
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Introductory





Oklahoma City Employee Retirement System

Board of Trustees

WB Smith
Legal Investigator
Chairman

Ken Culver
Vice Chair

Frances Kersey
City Clerk
Secretary

Robert Ponkilla
City Treasurer
Treasurer

David Adcock
Development Center
Manager

Jacqueline Ames
Police Service Tech II

Dianna Berry
Personnel Director

Paul Bronson
Assistant Director
Public Works

Craig Freeman
Finance Director

Florence Melton
Retired

Dennis Spencer

Randy Thurman

Jim Williamson
City Auditor

Staff

Rena Hutton
Administrator

Debbie Hayes
Analyst

December 12, 2012

The Board of Trustees
Oklahoma City Employee Retirement System
Oklahoma City, Oklahoma 73102

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Oklahoma City Employee Retirement System (“OCERS”) for fiscal year ended June 30, 2012. During the past years, the OCERS has seen significant advances and celebrated numerous successes and will continue to meet the challenges of tomorrow.

FINANCIAL INFORMATION

The OCERS’ management is responsible for both the accuracy of the data and the completeness of the presentation of the financial statements, including all notes and disclosures. To the best of my knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly present the financial position of the OCERS. The OCERS’ management is also responsible for establishing and maintaining a comprehensive framework of internal controls designed to ensure that assets are protected from loss, theft, or misuse and to ensure that adequate accounting information is generated in order to prepare financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatements.

BKD LLP, a firm of independent certified public accountants has audited the OCERS’ financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the OCERS for the fiscal year ended June 30, 2012, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the statements, assessing the accounting principles used, and evaluating the overall financial statement presentation. The independent certified public accountants concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the OCERS’ financial statements for the fiscal year ended June 30, 2012, are fairly presented in conformity with U.S. GAAP. The Independent Accountants’ Report on Financial Statements and Supplementary Information is presented as the first component of the Financial Section of this report.

U.S. GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The OCERS MD&A can be found immediately following the Independent Accountants’ Report on Financial Statements and Supplementary Information.

PROFILE OF THE OCERS

The Oklahoma City Employee Retirement System was created under the authority granted by Chapter 11 of the Oklahoma State Statutes on January 21, 1958, to provide pension and survivor benefits to all full-time civilian employees of The City of Oklahoma City. The benefit provisions of the OCERS are established by City Ordinance. The OCERS provides normal service retirement and early service retirement benefits for members who attain certain age and service requirements. Coverage for employment-connected (duty) disability benefits is immediate upon entry into the OCERS; while for non-duty-related injuries or illnesses, disability benefits are provided after attainment of fifteen years of service. Members are vested after five years of service and are eligible for benefits at their early or normal service retirement date. For additional information on benefit provisions, see the Summary of Benefit Provisions Evaluated or Considered in the Actuarial Section of the CAFR.

FUNDING

A pension plan is considered to be “well-funded” when it has enough money in reserve to meet all expected future obligations to its members. The OCERS funding objective is to meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll. The greater the level of funding, the larger the ratio of assets accumulated to fund the actuarial accrued liabilities. Also, a better level of funding gives the members a higher degree of assurance that their pension benefits are secure. As of December 31, 2011, the OCERS had an actuarial asset value of \$514,499,000 and an actuarial accrued liability of \$593,922,000, resulting in an unfunded actuarial accrued liability of \$79,423,000.

The ratio of actuarial assets to actuarial accrued liabilities is 87%. The OCERS is considered “well-funded”, and is currently below the 100% fully funded level. The City’s dedication to provide a financially sound plan for its members is illustrated in the “Solvency Test-Schedule of Funding Progress” found in the Actuarial Section of the CAFR. This illustration presents the accrued liabilities calculated according to the plan funding method and the historical progress made toward the funding of those liabilities. The “funded ratio” presents a positive indication of the financial strength of the OCERS.

FACTORS AFFECTING FINANCIAL CONDITION

As provided in the plan provisions, Section 40-95 of the Oklahoma City Municipal Code, the Board of Trustees is authorized to invest the plan assets and to take appropriate action regarding the investment, management, and custodianship of the plan assets. The investment responsibilities of the Board of Trustees include establishing reasonable investment objectives, developing investment policy guidelines, selecting investment managers, and evaluating performance results to assure adherence to guidelines and the achievement of objectives.

Primarily, an investment authority known as the “prudent person rule” governs the investments of the OCERS. The prudent person rule establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the fund. The prudent person rule states that fiduciaries shall discharge their duties solely in the interest of the fund participants and beneficiaries and with the degree of diligence, care, and skill which prudent men and women would ordinarily exercise under similar circumstances in a like position. The Board of Trustees recognizes that the objective of a sound and prudent policy is to produce investment results, which will preserve the plan’s assets, as well as maximize earnings consistent with long-term needs. Furthermore, through diversification of plan assets over several investment classifications, the Board of Trustees recognizes the need to maintain a balanced investment approach to not only maximize investment results but also to reduce risk. The Board of Trustees has adopted a formal investment policy that was last modified in May 2012. The policy guidelines provide that the OCERS shall target 40% of the fund to fixed income strategies, which includes a target of up to 15% in real estate. The guidelines also provide a target allocation of 60% to equity strategies, including a target of up to 5% to private equity. The Board of Trustees believes this asset allocation will assist in safeguarding against short-term market volatility while still providing opportunities for long-term growth. The Board of Trustees along with the investment advisor is involved in a thorough review of each investment manager and asset type to assure they are fulfilling their role in achieving total portfolio performance. It is important that each investment manager maintain their assigned investment style so the OCERS total portfolio is less likely to experience erratic market fluctuations. For fiscal year 2012, investments provided a 2.4 percent rate of return. The OCERS earned an annualized rate of return over the past three years of 11.00 percent, 1.9 percent over the last five years, and 6.1 percent over the past ten years. As the Board of Trustees looks forward, it does not appear that

financial markets, in the near future, will be replicating the long period of above average returns experienced in prior years. The financial markets will continue to change and the OCERS will have to be as diligent and proactive as it has been in the past. The Board of Trustees continues to monitor the cost of benefits as well as the financial stability of the OCERS to ensure all benefits promised are paid to our members.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Oklahoma City Employee Retirement System for its CAFR for the fiscal year ended June 30, 2011. Fiscal year 2011 was the eleventh year that the OCERS submitted and achieved this prestigious award. In order to be awarded a Certificate of Achievement, a report must satisfy both U.S. generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Public Pension Coordinating Council (PPCC) awarded the PPCC Standards Award for the plan year December 31, 2011.

The PPCC is a coalition of three associations that represent the vast majority of public employees in the United States. The associations are the:

National Association of State Retirement Administrators (NASRA)

National Council on Teacher Retirement (NCTR)

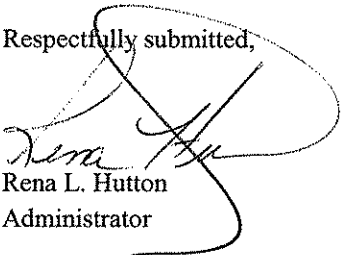
National Conference on Public Employee Retirement Systems (NCPERS)

The Public Pension Administration and Funding Standards are intended to reflect the minimum expectations for public retirement system management and administration, as well as serve as a benchmark by which all defined benefit public plans should be measured.

The preparation of this report could not have been accomplished without the dedicated efforts of the City's Controller and his staff. We would like to express our appreciation to all who assisted and contributed to its preparation.

On behalf of the Board of Trustees, we would like to take this opportunity to express our gratitude to the City staff, OCERS advisors, and the many people who have worked so diligently to assure the successful operation of the Oklahoma City Employee Retirement System.

Respectfully submitted,



Rena L. Hutton
Administrator



Robert D. Ponkilla
Treasurer

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

The Oklahoma City
Employee Retirement System
Oklahoma

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Christopher P. Moynell

President

Jeffrey R. Emer

Executive Director



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2012***

Presented to

Oklahoma City Employee Retirement System

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in black ink that reads "Alan H. Winkle". The signature is written in a cursive, flowing style.

Alan H. Winkle
Program Administrator

The Board of Trustees (Board) is a policy-making body and is responsible for the Oklahoma City Employee Retirement System's (System) proper operation. The System is administered under its guidance and direction, subject to such rules, regulations, and ordinances as adopted.

The Board consists of two ex-officio members, the City Treasurer and the City Clerk; two members from various City departments who are appointed by the City Council (Council); three members who have professional experience in investments and/or pension fund management who are appointed by Council, one member elected from the retired membership; three members elected from the active membership; and two members who serve by position, the Finance Director and the City Auditor. The Municipal Counselor's Office serves as the System's legal advisor.

W. B. Smith, Chairman Legal Investigator	Elected by active membership Term expires June 30, 2015
Ken Culver, Vice-Chairman	Appointed by the Council
Frances Kersey, Secretary City Clerk	Ex-Officio
Robert Ponkilla, Treasurer City Treasurer	Ex-Officio
Florence Melton	Elected by retired membership Term expires December 31, 2013
Dianna Berry City Personnel Director	Appointed by Council
Craig Freeman City Finance Director	By Position
Paul Bronson City Public Works Assistant Director	Elected by active membership Term expires June 30, 2014
Jacqueline Ames City Police Dispatcher	Appointed by Council
David Adcock Development Center Manager	Elected by active membership Term expires June 30, 2013
Jim Williamson City Auditor	By Position
Randy Thurman	Appointed by Council
Dennis Spencer	Appointed by Council

Elected Trustees from the active membership serve three-year terms. The elected Trustee from the retiree membership serves a two-year term. Appointed trustees continue to serve until replaced by the Council. By position Trustees continue to serve as long as they hold their position. There are no limitations on the number of terms an elected Trustee may serve.

CONSULTING SERVICES

LEGAL COUNSEL

Municipal Counselor's Office
City of Oklahoma City
Wiley Williams

Davis Graham & Stubbs LLP
Cindy Birley
Denver, Colorado

ACTUARY

Gabriel, Roeder, Smith & Company
Louise M. Gates
Southfield, Michigan

INVESTMENT CONSULTANT

Asset Consulting Group, Inc.
Jason Pulos
George Tarlas
St. Louis, Missouri

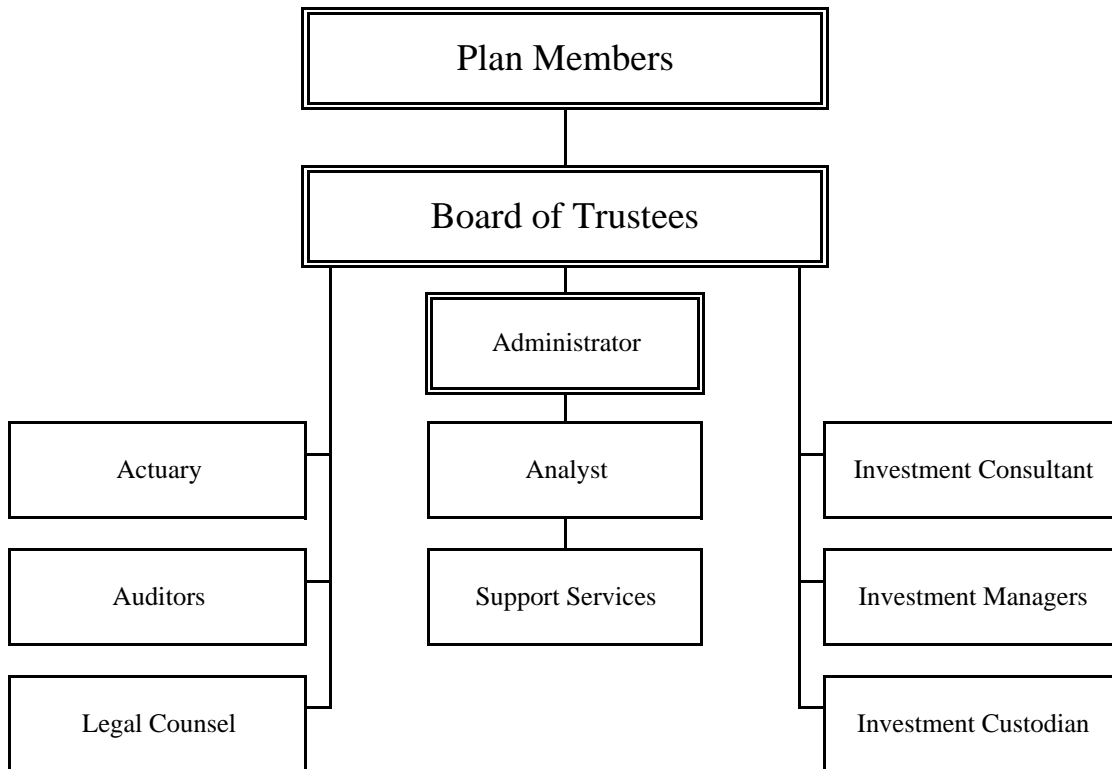
MEDICAL CONSULTANT

Independent Medical Examinations
Dr. John Munneke, M.D.
Medical Director
Oklahoma City, Oklahoma

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

BKD LLP
Oklahoma City, Oklahoma

See Investment Section for a list of investment professionals.





Oklahoma City Employee Retirement System

William B. Smith
Chairman

Rena L. Hutton
Administrator

Address:
420 West Main
Suite 343
Oklahoma City, Oklahoma
73102

Phone:
(405) 297-3413
(405) 297-2408

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December 12, 2012

The Members of the Oklahoma City Employee Retirement System:

The Comprehensive Annual Financial Report provides a comprehensive overview of the Oklahoma City Employee Retirement System's (OCERS) financial position, funding activity and benefit payments during the past fiscal year. This report sets forth pertinent financial, investment, actuarial, and statistical data, and is available to all plan participants and the general public.

The Board realizes that proper, prudent, and faithful stewardship is necessary for the accumulation and preservation of assets needed to pay promised retirement benefits. Over the years, the Board has taken steps resulting in a positive financial position and a high level of security for the OCERS. The OCERS is considered to be one of the best funded retirement systems in the State of Oklahoma. The actuarial valuation, as of December 31, 2011, reported a funding ratio of 87%. While OCERS is "well-funded", our ongoing challenge and goal is to return the OCERS' to a fully funded status. To assist the Board in accomplishing this goal the OCERS invests in various asset classes to provide a balanced investment approach and reduce overall risk. The Board will continue to monitor OCERS financial stability and the cost of benefits to ensure all benefits promised are paid to our members.

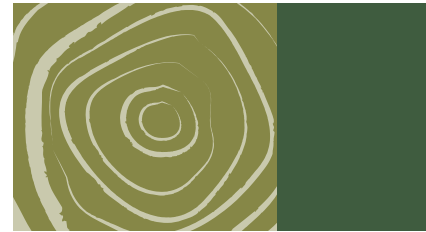
On behalf of the Board, and the OCERS' staff I would like to take this opportunity to extend a special note of thanks to our membership for their support during the past year. Additionally, I would like to thank the many dedicated consultants who provide valuable information to the Board. And finally, I would like to recognize the support provided by the Mayor, City Council and City management in helping the OCERS provide a financially secure retirement future for its members.

Sincerely,

A handwritten signature in black ink that reads "W.B. Smith".

William "W.B." Smith, Chairman
Oklahoma City Employee Retirement System

Financial



Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Oklahoma City Employee Retirement System
Oklahoma City, Oklahoma

We have audited the accompanying basic financial statements of the Oklahoma City Employee Retirement System (the System), a fiduciary component unit of the City of Oklahoma City, Oklahoma, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets held in trust for pension benefits of the Oklahoma City Employee Retirement System as of June 30, 2012 and 2011, and the changes in its net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2012, on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension and other postemployment information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The supporting schedules listed in the Financial Section of the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audits were performed for the purpose of forming opinions on the basic financial statements as a whole. The introductory section, investment section, actuarial section and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

December 12, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Oklahoma City Employee Retirement System (System) annual financial report, the System's management provides narrative discussion and analysis of the financial activities of the System for the fiscal years ended June 30, 2012 and 2011. The financial performance of the System is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. Introductory information is available in the transmittal letter which precedes this discussion and analysis. The System is a pension trust of the City of Oklahoma City (City).

Pension trust resources are not available to fund City programs but are held in trust to pay retirement benefits to members.

Financial Summary

- System net assets reported in the financial statements are \$519,094,189 for 2012. This compares to the previous year when net assets reported were \$517,998,621. These assets are held in trust to pay pension benefits to retirees.
- The actuarial value of assets as of the December 31, 2011 actuarial report is \$514,499,000 as compared to the December 31, 2010 value of \$524,731,000.
- The fair value of investments at June 30, 2012, is \$531,004,336 compared to \$538,334,871 at June 30, 2011.
- The funded ratio of the actuarial accrued liability at December 31, 2011 was 87% compared to 93% at December 31, 2010.

Overview of the Financial Statements

This discussion and analysis introduces the basic financial statements. The basic financial statements include: (1) statement of plan net assets, (2) statement of changes in plan net assets, and (3) notes to the financial statements. Also included in this report is additional information to supplement the basic financial statements.

Financial Statements

The System's annual report includes two basic financial statements. These statements provide both long-term and short-term information about the overall status of the System and are presented to demonstrate the extent the System has met its operating objectives efficiently and effectively using all the resources available and whether the System can continue to meet its objectives in the foreseeable future. Financial reporting for the System uses a perspective similar to that found in the private sector with its basis in full accrual accounting.

The first of these basic statements is the statement of plan net assets. This statement presents information that includes all of the assets and liabilities, with the difference reported as net assets held in trust for pension benefits. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the System as a whole is improving or deteriorating.

The second statement is the statement of changes in plan net assets which reports how the net assets changed during the fiscal year and can be used to assess the System's operating results and analyze how the System's programs are financed. All current year revenues and expenses are included regardless of when cash is received or paid.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees.

Financial Analysis

The System's net assets at fiscal year-end are \$519,094,189. This is an increase of \$1,095,568 from last year's net assets. Overall the System's financial position improved during fiscal year 2012.

Summary of Plan Net Assets

	2012	2011	2012-2011 Amount of Change	2012-2011 %	2010	2011-2010 Amount of Change	2011-2010 %
Assets							
Cash	\$3,831,390	\$617,748	\$3,213,642	520.2%	\$80,801	\$536,947	664.5%
Receivables	1,272,932	1,683,177	(410,245)	(24.4)	1,594,260	88,917	5.6
Investments	531,004,336	538,334,871	(7,330,535)	(1.4)	459,962,399	78,372,472	17.0
Invested securities							
lending collateral	<u>19,306,046</u>	<u>17,829,992</u>	<u>1,476,054</u>	8.3	<u>18,956,453</u>	<u>(1,126,461)</u>	(5.9)
Total assets	<u>555,414,704</u>	<u>558,465,788</u>	<u>(3,051,084)</u>	(0.5)	<u>480,593,913</u>	<u>77,871,875</u>	16.2
Liabilities	<u>36,320,515</u>	<u>40,467,167</u>	<u>(4,146,652)</u>	(10.2)	<u>35,431,799</u>	<u>5,035,368</u>	14.2
Net assets	<u>\$519,094,189</u>	<u>\$517,998,621</u>	<u>\$1,095,568</u>	0.2	<u>\$445,162,114</u>	<u>\$72,836,507</u>	16.4

Cash increased by \$3.21 million and \$537 thousand in 2012 and 2011, respectively. This is attributed to the available cash not invested at month end. Receivables decreased by \$410 thousand during 2012 compared to an increase of \$89 thousand in 2011. This is a result of the timing of contribution, dividend, and interest receipts. Investments decreased \$7.33 million at June 30, 2012 primarily due to a decrease in pending broker transactions of \$5.64 million and increased uninvested cash at June 30 of \$3.21 million. Investments increased by \$78.37 million at June 30, 2011 due primarily to market value appreciation of \$79.10 million. The decrease in liabilities of \$4.15 million at June 30, 2012 and increase of \$5.04 million at June 30, 2011 is due to an increase in pending broker investment transactions.

Summary of Changes in Plan Net Assets

	2012	2011	2012-2011 Amount of Change	2012-2011 %	2010	2011-2010 Amount of Change	2011-2010 %
Additions							
Contributions	\$16,355,927	\$13,417,706	\$2,938,221	21.9%	\$12,041,513	\$1,376,193	11.4%
Investment income (loss), net	10,232,624	83,749,300	(73,516,676)	(87.8)	43,651,980	40,097,320	91.9
Net securities lending activities	60,961	49,133	11,828	24.1	120,497	(71,364)	(59.2)
Other	<u>64,621</u>	<u>155,574</u>	<u>(90,953)</u>	(58.5)	<u>339,320</u>	<u>(183,746)</u>	(54.2)
Total additions	<u>26,714,133</u>	<u>97,371,713</u>	<u>(70,657,580)</u>	(72.6)	<u>56,153,310</u>	<u>41,218,403</u>	73.4
Deductions							
Benefits	23,914,174	23,286,808	627,366	2.7	21,573,879	1,712,929	7.9
Refunds of contributions	1,228,379	819,060	409,319	50.0	921,698	(102,638)	(11.1)
Administrative expenses	<u>476,012</u>	<u>429,338</u>	<u>46,674</u>	10.9	<u>390,512</u>	<u>38,826</u>	9.9
Total deductions	<u>25,618,565</u>	<u>24,535,206</u>	<u>1,083,359</u>	4.4	<u>22,886,089</u>	<u>1,649,117</u>	7.2
Changes in net assets	1,095,568	72,836,507	(71,740,939)	(98.5)	33,267,221	39,569,286	118.9
Beginning net assets	<u>517,998,621</u>	<u>445,162,114</u>	<u>72,836,507</u>	16.4	<u>411,894,893</u>	<u>33,267,221</u>	8.1
Ending net assets	<u>\$519,094,189</u>	<u>\$517,998,621</u>	<u>\$1,095,568</u>	0.2	<u>\$445,162,114</u>	<u>\$72,836,507</u>	16.4

Contributions increased by \$2.94 million and \$1.38 million at June 30, 2012 and 2011, respectively. This is due to an increase in the employer contribution rate from 5.04% to 6.77% on June 11, 2010 and from 6.77% to 8.56% on July 7, 2011. Market performance during fiscal year 2012 and 2011 impacted the decrease in investment income of \$73.52 million and increase in investment income of \$40.10 million, respectively. The unrealized gains and realized losses were \$6.25 million and \$2.05 million, respectively, at 2012 compared to unrealized and realized gains of \$53.26 million and \$25.84 million, respectively, at 2011. The increase in securities lending income of \$12 thousand at June 30, 2012 is a result of a decrease in the securities lending rebate rate from .002% to (0.25%). The decrease of \$71 thousand at June 30, 2011, is mainly due to a decrease in the fee rate to .29% versus the previous year when the fee rate was .43%. A decrease in prior service credit contributions revenue for the twelve months ended June 30, 2012 and 2011, respectively, caused a decrease in other income of \$91 thousand and \$184 thousand at June 30, 2012 and 2011, respectively. This was due to fewer individuals rejoining the retirement system to regain their vested prior years service. The increase in benefits of \$627 thousand at June 30, 2012 and \$1.71 million at June 30, 2011 was due to increases in retirees from 1,283 to 1,299 at December 31, 2011 and from 1,218 to 1,283 at December 31, 2010. The increase in refunds of contributions of \$409 thousand at June 30, 2012 was due to an increase in employees leaving the plan and the decrease of \$103 thousand at June 30, 2011, was due to a decrease in employees leaving the plan.

Economic Factors

Due to the relatively static growth rate of global economies during fiscal year 2012, the market value of investments appreciated slightly during fiscal year 2012. In fiscal year 2012, net investment income was \$10.23 million, equivalent to 2% of net assets compared to a net investment income of \$83.75 million, equivalent to 16.2% of the net assets in 2011.

Financial Market Indices

	2012-2011		2011-2010		2011-2010		2011-2010	
	2012	2011	Amount of	%	2010	Amount of	%	Change
			Change	Change		Change	Change	
S&P 500	1,362.16	1,320.64	41.52	3.1%	1,030.71	289.93	28.1%	
S&P MidCap 400	941.64	978.64	(37.00)	(3.8)	711.73	266.91	37.5	
S&P SmallCap 600	445.44	444.69	0.75	0.2	327.97	116.72	35.6	
Dow Jones Industrial Average	12,880.09	12,414.34	465.75	3.8	9,774.02	2,640.32	27.0	
NASDAQ	2,935.05	2,773.52	161.53	5.8	2,109.24	664.28	31.5	
10 Year Bond Yield (%)	1.66	3.18	(1.52)	(47.8)	2.95	0.23	7.8	

Diversification of investments is one of the primary means the System uses to moderate risk. The investment section of this report provides details on the types of investments, asset allocation, and investment approach that guide the System's investment decisions. The investment section also contains information on some of the specific investments held and annual return over the last one, three, and five years.

Contacting the System's Financial Management

This financial report is designed to provide a general overview of the System finances, comply with finance-related laws and regulations, and demonstrate commitment to public accountability. If you have questions about this report or would like to request additional information, contact the City's Finance Department, Accounting Services Division, at 100 North Walker, Suite 300, Oklahoma City, Oklahoma 73102.

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STATEMENTS OF PLAN NET ASSETS
June 30,

OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM

	2012	2011
<u>ASSETS</u>		
Non-pooled cash-----	\$3,831,390	\$617,748
<u>RECEIVABLES</u>		
Interest and dividends-----	819,536	824,849
Employer-----	252,712	446,173
Plan members-----	177,135	363,015
Other receivables-----	23,549	49,140
Total receivables-----	<u>1,272,932</u>	<u>1,683,177</u>
<u>INVESTMENTS, AT FAIR VALUE</u>		
Domestic common stock-----	151,253,695	164,427,877
Passive domestic stock funds-----	69,658,147	78,044,989
Preferred stock-----	2,958,787	1,351,355
Government securities/fixed income-----	85,610,097	98,939,908
Passive bond fund-----	38,338,120	39,727,415
International stock-----	121,965,819	112,436,236
Passive international bond funds-----	9,631,391	8,481,948
Treasury money market fund-----	18,690,605	5,639,037
Real estate-----	30,598,361	26,797,696
Oklahoma City judgments-----	2,299,314	2,488,410
Total investments-----	<u>531,004,336</u>	<u>538,334,871</u>
Invested securities lending collateral-----	19,306,046	17,829,992
Total assets -----	<u>555,414,704</u>	<u>558,465,788</u>
<u>LIABILITIES</u>		
Accounts payable-----	631,979	620,738
Due to broker-----	16,281,374	21,925,736
Wages and benefits payable-----	6,901	7,980
Securities lending collateral-----	19,306,046	17,829,992
Compensated absences, current-----	17,229	17,144
Compensated absences, non-current-----	43,262	37,029
Net other post-employment benefits obligation-----	33,724	28,548
Total liabilities -----	<u>36,320,515</u>	<u>40,467,167</u>
<u>NET ASSETS</u>		
Held in trust for pension benefits-----	<u>\$519,094,189</u>	<u>\$517,998,621</u>

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS
For the Fiscal Years Ended June 30,

OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM

	2012	2011
<u>ADDITIONS</u>		
<u>CONTRIBUTIONS</u>		
Employer-----	\$9,614,625	\$7,132,772
Plan members-----	6,741,302	6,284,934
Total contributions-----	<u>16,355,927</u>	<u>13,417,706</u>
<u>INVESTMENT INCOME</u>		
Net appreciation in fair value of investments-----	4,538,044	79,095,270
Interest-----	3,693,833	3,166,792
Dividends-----	3,511,488	2,944,811
	11,743,365	85,206,873
Less: investment expense-----	(1,510,741)	(1,457,573)
Net investment income-----	<u>10,232,624</u>	<u>83,749,300</u>
<u>FROM SECURITIES LENDING ACTIVITIES</u>		
Securities lending income-----	78,196	77,448
Securities lending expenses:		
Borrower rebates-----	15,453	(2,900)
Management fees-----	(32,688)	(25,415)
Net income from securities lending activities-----	<u>60,961</u>	<u>49,133</u>
Other-----	64,621	155,574
Total additions-----	<u>26,714,133</u>	<u>97,371,713</u>
<u>DEDUCTIONS</u>		
Benefits paid-----	23,914,174	23,286,808
Refunds of contributions-----	1,228,379	819,060
Administrative expenses-----	476,012	429,338
Total deductions-----	<u>25,618,565</u>	<u>24,535,206</u>
Change in net assets-----	1,095,568	72,836,507
<u>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</u>		
Beginning of year-----	517,998,621	445,162,114
End of year-----	<u>\$519,094,189</u>	<u>\$517,998,621</u>

See accompanying notes to financial statements.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. A. INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this note. The remainder of the notes is organized to provide explanations, including required disclosures, of the Oklahoma City Employee Retirement System (System) financial activities for the fiscal years ended June 30, 2012 and 2011.

I. B. BASIS OF PRESENTATION

I. B. 1. REPORTING ENTITY AND RELATIONSHIP TO THE CITY OF OKLAHOMA CITY, OKLAHOMA

The System was authorized and created by the City of Oklahoma City (City) ordinance on January 21, 1958, to hold funds in trust for its members. The purpose of the System is to provide retirement benefits and disability allowances for substantially all full-time, civilian employees of the City and public trusts included in the City's reporting entity. Assets are held separately from the City and may be used only for the payment of benefits to the members. The System administers a single employer defined benefit pension plan (Plan).

The System Board of Trustees (Board) is comprised of thirteen members. The City Council appoints two City employees or department heads from the various City departments. The City Council also appoints three members who have demonstrated professional experience relating to pension fund investment and management practices. The City Clerk serves as an ex-officio member (non-voting) and acts as the Clerk and Secretary of the Board. The City Auditor and Finance Director are members by position. Three members are elected by ballot of active City employees. One member is elected by ballot of retired City employees. The City Treasurer serves as an ex-officio member (non-voting) and acts as the Treasurer of the System.

Method of Reporting in the City's Comprehensive Annual Financial Report (CAFR)

The System is reported as a fiduciary component unit in the City's CAFR as a pension trust fund included in the City's fiduciary financial statements. This report can be obtained from Accounting Services at 100 N. Walker, Suite 300, Oklahoma City, OK 73102.

I. B. 2. BASIC FINANCIAL STATEMENTS

The basic financial statements include the statement of plan net assets and statement of changes in plan net assets. These statements report financial information of the System as a whole.

I. B. 3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Financial statements of the System are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States (U.S. GAAP). Revenues are recognized when earned and expenses are recorded when incurred regardless of the timing of related cash flows. All assets and liabilities (both current and non-current) are included in the statement of net assets. Plan member contributions to the System are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

I. C. BUDGET LAW AND PRACTICE

Oklahoma Statutes require the submission of financial information for public trusts. However, legal budgetary control levels are not specified. Accordingly, financial information for the System is submitted to its governing body. Appropriations are not recorded. Management's policy prohibits disbursements which exceed available cash.

I. D. POLICIES RELATED TO ASSETS AND LIABILITIES

I. D. 1. CASH AND INVESTMENTS

Investments are reported at fair value which is determined using selected bases. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Market quotations are as of fiscal year end. Managed funds not listed on an established market are reported at estimated fair value as determined by the investment manager based on quoted sales prices of the underlying securities. Cash equivalents are reported with investments. Cash deposits are reported at carrying value which approximates fair value.

Oklahoma City judgments are carried at cost which approximates market value.

I. D. 2. COMPENSATED ABSENCES

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on the tenure with the City. Sick leave accrues to full-time, permanent employees to specified maximums. Generally, after one year of service, employees are entitled to a percentage of their sick leave balance and all accrued vacation leave upon termination. Selected management employees are entitled to all accrued sick and vacation leave balances at termination. The estimated liabilities include required salary-related payments. Compensated absences are reported as accrued current and non-current liabilities in the financial statements.

I. D. 3. USE OF ESTIMATES

The preparation of the System financial statements in conformity with U.S. GAAP requires the System to make significant estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at the date of the financial statements. The actuarial information included in the required supplementary information as of the benefit information date, the changes in the net assets during the reporting period, and applicable disclosures of contingent assets and liabilities at the date of the financial statements could also be affected. Actual results could differ from reported estimates.

Contributions to the System and the actuarial information included in the required supplementary information are determined from certain assumptions pertaining to interest rates, inflation rates, and employee compensation and demographics and reported based on receipts. Due to the changing nature of these assumptions, it is at least reasonably possible that changes in these assumptions may occur in the near term and, due to the uncertainties inherent in setting assumptions, that the effects of such changes could be material to the financial statements. In addition, due to the unpredictability of market performance, there are risks and uncertainties regarding future investment performance.

I. D. 4. RISK MANAGEMENT

The System's risk management activities are administered by the City Risk Management Fund and the Oklahoma City Municipal Facilities Authority (OCMFA) OCMFA Services Fund. These funds administer employee life, employee health, property and liability, workers' compensation, unemployment, and disability insurance programs for the City and related Trusts, Authorities and System. The System pays premiums to the City to cover its estimated share of the current costs incurred by the insurance programs.

Significant losses are covered by commercial insurance for the property and liability programs. The City offers several different employee health and life options which, except for the indemnity health plan are fully insured. The self-insured indemnity health plan is covered by stop-loss coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The City and OCMFA record estimated liabilities for indemnity health care, worker's compensation, torts, and other claims against the City and related Trusts and Authorities. Retiree health insurance claims liabilities are reported in the Oklahoma City Post-Employment Benefit Trust. The System does not recognize any separate liabilities related to risk management.

I. E. TAX STATUS

The Internal Revenue Service has determined and informed the System by a letter dated May 18, 2012, that the System is designed in accordance with applicable sections 401(a) of the Internal Revenue Code (Code). The Board believes that the System is designed and is currently being operated in compliance with the applicable requirements of the Code.

II. ASSETS AND LIABILITIES

II. A. ASSETS

II. A. 1. DEPOSITS AND INVESTMENTS

Adoption of New Accounting Standard

During fiscal year 2012, the City implemented GASB Statement No. 59, Financial Instruments Omnibus. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. There was no effect of adopting GASB Statement No. 59 to the financial statements.

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the System deposits may not be returned or the System will not be able to recover collateral securities in the possession of an outside party. The System policy does not formally address custodial credit risk for deposits. However, the investment policy restricts uninvested cash to minimal balances generally covered by the Federal deposit insurance.

At June 30, 2012 and 2011, the System's cash is collateralized with securities held by the pledging financial institution in the name of the System, less Federal depository insurance.

Investments

The System invests in various investment securities. Investment securities are exposed to various risks such as interest rate risk and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the System's financial position.

	2012		
	<u>Fair Value/ Carrying Amount (1)</u>	<u>Cost</u>	<u>Effective Duration (2)</u>
<u>COMMON STOCK</u>			
Domestic	\$112,430,370	\$96,256,065	N/A
International	5,045,276	4,807,272	N/A
<u>GOVERNMENT SECURITIES</u>			
U.S. Treasury strips	881,004	719,112	6.40
U.S. Treasury bonds	10,551,166	10,121,867	17.39
U.S. Treasury TIPS	935,509	899,384	15.77
Federal agency notes	31,499,809	31,453,066	24.10
Ginnie Mae	9,441,627	9,327,219	28.10
<u>CORPORATE OBLIGATIONS</u>			
Domestic	21,526,937	19,741,975	12.55
International (3)	6,902,967	7,452,199	8.72
<u>MUTUAL FUNDS</u>			
Equity (3)	188,128,665	159,471,238	N/A
Bond	38,338,120	33,336,067	5.20
Other	70,521,778	69,987,655	N/A
<u>OTHER INVESTMENTS</u>			
Money market fund	18,690,605	18,690,605	1.50
Foreign government obligations	287,825	237,935	14.73
Oklahoma City judgments	2,299,314	2,299,314	0.34
Asset backed obligations	10,564,576	12,501,719	23.62
Real estate investment trusts	<u>2,958,788</u>	<u>2,488,099</u>	N/A
	<u>531,004,336</u>	<u>479,790,791</u>	
Securities lending short-term collateral investments	19,306,046	19,306,046	0.03
	<u>\$550,310,382</u>	<u>\$499,096,837</u>	

(continued)

Investments (continued)

	2011		
	<u>Fair Value/ Carrying Amount (1)</u>	<u>Cost</u>	<u>Effective Duration (2)</u>
<u>COMMON STOCK</u>			
Domestic	\$127,726,441	\$106,858,787	N/A
International	5,312,649	4,461,017	N/A
<u>GOVERNMENT SECURITIES</u>			
U.S. Treasury strips	2,739,488	2,472,439	8.22
U.S. Treasury bonds	10,357,304	10,504,453	15.73
U.S. Treasury TIPS	1,875,445	1,576,937	18.42
Federal agency notes	38,243,147	37,966,466	23.33
Ginnie Mae	13,966,321	13,981,338	27.68
<u>CORPORATE OBLIGATIONS</u>			
Domestic	18,212,990	16,979,664	11.91
International (3)	6,378,595	6,964,151	11.13
<u>MUTUAL FUNDS</u>			
Equity (3)	180,037,862	153,924,497	N/A
Bond	39,727,414	37,257,650	5.30
Other	70,383,514	74,590,114	N/A
<u>OTHER INVESTMENTS</u>			
Money market fund	5,639,036	5,639,036	1.39
Foreign government obligations	505,506	487,041	14.18
Oklahoma City judgments	2,488,410	2,488,410	4.00
Asset backed obligations	13,545,213	16,415,488	24.02
Real estate investment trusts	<u>1,195,536</u>	<u>1,074,291</u>	N/A
	<u>538,334,871</u>	<u>493,641,779</u>	
Securities lending short-term collateral investments	<u>17,829,992</u>	<u>17,829,992</u>	0.03
	<u>\$556,164,863</u>	<u>\$511,471,771</u>	

- (1) Classifications are based on generally accepted investment types. Financial statement presentation is based on investment policy definitions, therefore individual line items will not tie to the statement of plan net assets.
- (2) Interest rate risk is estimated using effective duration in months for investment types listed except for the money market fund which uses weighted average months to maturity.
- (3) Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment.

NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM

Credit Risk

Ratings represent the System exposure to credit risk including obligations of the U.S. government and those explicitly guaranteed by the U.S. government.

	2012									
	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>	<u>B</u>	<u>CCC</u>	<u>D</u>	Not <u>Rated</u>	<u>N/A</u>
<u>GOVERNMENT SECURITIES</u>										
U.S. Treasury strips	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%
U.S. Treasury bonds	0	0	0	0	0	0	0	0	0	100
U.S. Treasury TIPS	0	0	0	0	0	0	0	0	0	100
Federal agency notes	0	0	0	0	0	0	0	0	0	100
GNMA notes	0	0	0	0	0	0	0	0	0	100
<u>CORPORATE OBLIGATIONS</u>										
Domestic	0	12	46	40	2	0	0	0	0	0
International	4	16	53	24	0	0	0	1	0	2
<u>MUTUAL FUNDS</u>										
Bond	0	0	0	0	0	0	0	0	100	0
<u>OTHER INVESTMENTS</u>										
Asset backed obligations	43	2	1	1	2	0	0	0	48	3
Real estate investment trusts	0	0	3	0	0	20	0	0	75	2
Money market fund	100	0	0	0	0	0	0	0	0	0
Foreign government obligations	0	0	13	87	0	0	0	0	0	0
Securities lending short-term collateral investments	100	0	0	0	0	0	0	0	0	0

	2011									
	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>	<u>B</u>	<u>CCC</u>	<u>D</u>	Not <u>Rated</u>	<u>N/A</u>
<u>GOVERNMENT SECURITIES</u>										
U.S. Treasury strips	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%
U.S. Treasury bonds	0	0	0	0	0	0	0	0	0	100
U.S. Treasury TIPS	0	0	0	0	0	0	0	0	0	100
Federal agency notes	8	1	2	0	0	0	0	0	89	0
GNMA notes	0	0	0	0	0	0	0	0	0	100
<u>CORPORATE OBLIGATIONS</u>										
Domestic	3	12	47	33	5	0	0	0	0	0
International	0	30	46	21	0	0	0	1	2	0
<u>MUTUAL FUNDS</u>										
Bond	0	0	0	0	0	0	0	0	0	100
<u>OTHER INVESTMENTS</u>										
Asset backed obligations	45	2	1	2	2	0	0	0	48	0
Real estate investment trusts	0	0	42	0	0	58	0	0	0	0
Money market fund	100	0	0	0	0	0	0	0	0	0
Foreign government obligations	0	50	7	43	0	0	0	0	0	0
Securities lending short-term collateral investments	100	0	0	0	0	0	0	0	0	0

Foreign Investments

Investments in foreign equities for fiscal years 2012 and 2011 are shown by monetary unit to indicate possible foreign currency risk.

	<u>2012</u>	<u>2011</u>
Australian dollar	\$281,417	\$221,660
Brazilian real	739,981	316,050
Thai Baht	571,823	217,735
Turkish Lira	567,768	221,238
Indonesian rupiah	714,109	295,724
Mexican peso	1,154,527	361,608
Malaysian ringgit	892,043	319,777
Polish zloty	678,415	346,267
Russian ruble	650,281	292,078
South African rand	590,026	242,399
Hungarian Forint	293,468	182,138
Canadian Dollar	107,385	133,830
Peruvian Nuevo Sol	292,128	60,888
Colombian Peso	194,052	121,712
Other (1)	<u>1,903,968</u>	<u>5,148,844</u>
International securities	<u>\$9,631,391</u>	<u>\$8,481,948</u>
International stock funds and similar securities	<u>\$121,965,819</u>	<u>\$112,436,236</u>

(1) Includes no individual currencies greater than \$220,000.

Realized Gains/losses

For the year ended June 30, 2012, net realized losses were \$2,052,119 compared to realized gains of \$25,838,032, at June 30, 2011. Net realized gains are calculated independently of the calculation of net appreciation (depreciation) and include investments sold in the referenced year that had been held for more than one year for which unrealized gains and losses were reported in net appreciation (depreciation) in prior years.

Investment Policies

The System investment policies provide for investment managers who have full discretion of assets allocated to them subject to the overall investment guidelines set out in the policy. Manager performance is reviewed by a consultant who provides reports to the Board. Any changes in the investment management firm must be reported as they occur. Overall investment guidelines provide for diversification and allow investment in domestic and international common stocks, fixed income securities, cash equivalents, index funds, collective trust funds, mutual funds, and City judgments.

Custodial credit risk policy provides for the engagement of a custodian who accepts possession of securities for safekeeping; collects and disburses income; collects principal of sold, matured, or called items; and provides periodic accounting to the Board. The System holds \$345,836,448 in equity funds at June 30, 2012 compared to \$356,260,457 at June 30, 2011. Of these amounts \$164,078,404 and \$163,492,182, respectively are held by the investment counterparty, not in the name of the System or the City. The System participates in securities lending. Securities lending short-term collateral which is held by the investment counterparty, not in the name of the System, is \$19,306,046 for 2012 compared to \$17,829,992 for 2011.

Asset Allocation Guidelines

	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>	<u>Actual (1)</u>	
				<u>2012</u>	<u>2011</u>
Domestic equities	50.0%	50.0%	50.0%	53.2%	53.4%
International equities	5.0	10.0	15.0	7.8	9.3
Fixed income (2)	20.0	25.0	30.0	33.1	32.3
Real assets	10.0	15.0	20.0	5.9	5.0

- (1) Percentages are based on investment policy definitions.
(2) Fixed income includes cash.

The System policy provides risk parameters for various portfolio compositions. These address credit risk, concentration of credit risk, interest rate risk, and foreign currency risk applicable to the portfolio. The System contractually delegates portfolio management to investment managers based on these prescribed portfolio structures. Domestic equity securities (common stock or equivalent) must be traded on a major U.S. exchange and may include issues convertible to common stocks. International equity securities are non-U.S. issues whose principal markets are outside the U.S. In general, cash may not exceed more than 10% of any equity manager's portfolio.

Portfolio Parameters

Large Cap Domestic Portfolio

Investment in equity securities may not exceed 10% of an individual equity, 10% of the market value of the individual portfolio, or 10% of any company's outstanding equity.

Small/SMID Cap Portfolio

Investment in equity securities may not exceed 5% of an individual equity, 10% of the market value of the individual portfolio, or 5% of any company's outstanding equity.

International Portfolio

Investment policy designates that no single stock may exceed 5% of the market value of the individual portfolio or 5% of any company's outstanding equity. Cash assets may be invested in short-term fixed income investments denominated in U.S. dollars or other foreign currencies. Fixed income should not exceed 10% of the individual portfolio.

Emerging Markets Portfolio

Investment policy designates that no single stock may exceed 5% of the market value of the individual portfolio or 5% of any company's outstanding equity. Cash should not exceed 10% of the individual portfolio.

Long Short Equity Portfolio

This portfolio will be implemented through a fund of funds approach. Equity oriented strategies shall include primarily fundamental long/short equity managers, but may include other primarily equity oriented strategies at the managers discretion.

Private Equity and Venture Capital Portfolio

Within the Private Equity/Venture Capital investment portfolio, the following securities and/or strategies may be included: Seed, Early, and Late Stage Venture Capital; Small, Mid and Large Market Buyout; Mezzanine Debt; and Distressed Debt. Other strategies that improve the potential risk/reward profile may be included.

Core Fixed Income Portfolio

Investment may include any amount of U.S. government or U.S. government agencies obligations. Corporate bonds are diversified by industry and no more than 5% of any issuer. Mortgages and mortgage-backed securities are permitted. Bonds must have a minimum quality rating of BBB with overall portfolio average credit quality of AA or higher. International bonds may not exceed 20% of an individual portfolio and no more than 5% may be invested in one country. Convertible securities or preferred stock may not exceed 5% of the portfolio. Average option adjusted duration of the portfolio shall approximate the option adjusted duration of the relevant benchmark designated as the Barclays Capital Aggregate Bond Index.

Core Plus Fixed Income Portfolio

Income investment is structured to include 80-100% domestic securities and 0-25% high yield, emerging market, non-dollar securities which may include below investment grade corporate bonds. Other provisions are similar to the core fixed income portfolio with exceptions for bonds limited to 2% and neither cash or structured notes, as individual investment types, may exceed 5% of the total portfolio. Derivatives may be used on a limited basis to eliminate undesirable risk. No more than 5% of the portfolio will be invested in original futures margin and option premiums. Swap contracts may be executed with counterparties whose credit rating is A2/A or better. Average option adjusted duration of the portfolio shall approximate the option adjusted duration of the relevant benchmark designated as the Barclays Capital Aggregate Bond Index, within a band of plus or minus 20%. On an ongoing basis, cash should not exceed 5% of the portfolio.

The System investment policy is more restrictive than the requirements of Oklahoma law found in Title 60 of the Oklahoma Statutes and the standards of the Oklahoma Uniform Prudent Investor Act. These statutes restrict public trust investing to the Prudent Investor Rule defined by Title 60 Oklahoma Statutes to consider the purposes, terms, distribution requirements, and other circumstances of the Trust and to exercise reasonable care, skill, and caution. Investment decisions must be evaluated not in isolation, but in the context of the trust portfolio as a whole and as a part of the overall investment strategy having risk and return objectives reasonably suited to the Trust.

Securities Lending Transactions

City ordinance and the Board of Trustees permit the System to lend securities with a simultaneous agreement to return collateral for the same securities in the future with agent indemnification in the event of borrower default. Securities lent may consist of both equity and fixed income securities. Collateral may consist of cash or securities issued or guaranteed by the U.S. government or its agencies. The System may use or invest cash collateral at its own risk. However, collateral other than cash may not be pledged, sold, or otherwise transferred without borrower default. During fiscal year 2012 and 2011, substantially all collateral consisted of cash. The maturities of the investments made with cash collateral generally match the maturities of securities loans. The System's securities custodial bank is the agent in lending the plan's securities for cash collateral of 100% - 102%.

At June 30, 2012 and June 30, 2011 the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The contract with the lending agent requires them to indemnify the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities' issuers while the securities are on loan. Custodial credit risk for securities lending transactions is included in the previous discussion of the System policy.

Net income produced from securities lending activities described above for fiscal year 2012 and 2011 was \$60,961 and \$49,133, respectively. The System contractually delegates securities lending management. The market value of securities on loan as of June 30, 2012 was \$19,225,130 comprised of: \$5,711,266 of corporate obligations, and \$13,513,864 of common stock. The market value of securities on loan as of June 30, 2011, was \$17,484,047 comprised of: \$5,969,021 of corporate obligations, \$9,452,940 of common stock, and \$2,062,086 of U.S. government securities.

In 2011, the System also received securities lending income from a mutual fund investment. Within this investment, the System does not own or hold specific identifiable securities that may be loaned or any corresponding collateral received as a result of transactions. The System is not a direct party to the securities lending agreement. Risks, loaned securities, collateral, or other securities lending terms cannot be specifically assigned to the System. Selection of and participation in managed investments inclusive of securities lending activity was approved by the Board. The System's income received from the securities lending activities of this investment was \$1,896 for 2011. The System did not participate in this program in 2012.

Derivatives

The System's derivative position currently includes interest rate swaps, foreign currency forwards, index swaps, treasury bond futures and swaptions. The System is exposed to credit risk on hedging derivative instruments that are in asset positions. In the System's investment policy, derivatives may be used to reduce or eliminate undesirable portfolio risks caused by currency exposure, duration and yield curve position. Derivatives may not be used to create exposure to an asset class that is not permitted by portfolio guidelines. At June 30, 2012 and 2011, derivative investments comprise less than .5% of the System's portfolio.

II. B. CONTRIBUTIONS RECEIVABLE

	2012			2011
	Employee	Employer	Total	Total
General Fund	\$73,870	\$105,391	\$179,261	\$355,683
Parking Fund	499	315	814	1,381
Police Fund	1,301	1,856	3,157	6,161
Fire Fund	405	578	983	1,744
Emergency Management Fund	5,135	7,326	12,461	23,957
Airports Fund	7,505	10,707	18,212	37,798
Fleet Services Fund	2,455	3,503	5,958	10,569
Risk Management Fund	871	1,242	2,113	4,270
Information Technology Fund	7,819	11,155	18,974	37,012
Print Shop Fund	203	289	492	644
Maps Operations Fund	1,337	1,907	3,244	4,797
Solid Waste Management Fund	6,605	9,423	16,028	32,018
Water Utilities Fund	37,061	52,873	89,934	185,037
Stormwater Drainage Fund	7,285	10,393	17,678	35,143
Grants Management Fund	2,291	3,268	5,559	10,109
System	221	711	932	1,444
Oklahoma City Public Property Authority - Golf Courses	2,677	3,820	6,497	14,497
Asset Forfeiture Fund	-	-	-	2,403
Transportation Fund	1,540	2,197	3,737	7,652
City and Schools Sales Tax Fund	536	764	1,300	2,543
Zoo Fund	<u>17,519</u>	<u>24,994</u>	<u>42,513</u>	<u>34,326</u>
	<u>\$177,135</u>	<u>\$252,712</u>	<u>\$429,847</u>	<u>\$809,188</u>

There are no receivables older than thirty days. Receivables are due from the City.

II. C. COMPENSATED ABSENCES

Compensated absences balances changed from 2011 to 2012 by accruals of \$22,323 and usages of \$16,005 compared to changes in accruals of \$19,834 and usages of \$15,926 from 2010 to 2011.

III. PENSION PLAN

III. A. PLAN DESCRIPTION

The System is the administrator of a single employer defined benefit local government retirement plan for the City of Oklahoma City. Plan amendments and benefit provisions are established and amended by City Council action. Unless otherwise indicated, the information in this note is provided as of the latest actuarial valuation, December 31, 2011. Actuarial valuations are performed annually.

Funding Policies, Contribution Methods and Benefit Provisions

Year established and governing authority	1958; City Council Ordinance
Determination of contribution requirements	Actuarially determined
Employer	8.56% of covered payroll
Plan members	6.0% of covered payroll
Funding of administrative costs	Investment earnings
Period required to vest	5 years
Cost of living benefit increases	Cost of living adjustments are compounded annually; increases must be approved by the System.
Eligibility for distribution	30 years credited service regardless of age, or age 60 with 10 years (Pre 3/67 hires), or 25 years of credited service regardless of age, or age 65 with 5 years (Post 3/67 hires), or age 55 with 5 years on a reduced basis, or 5 years service, with benefits to begin at age 65 (60 with 10 years if Pre 3/67 hire)

Funding Policy

Contribution requirements are actuarially determined and established by City Council ordinance. Beginning July 1, 2011, the employer contribution rate changed from 6.77% of covered payroll to 8.56% of covered payroll. The employee contributes 6.0% of covered payroll. Administrative costs are funded with investment earnings.

Benefit Provisions

The System was established by City Council Ordinance in 1958 to hold funds in trust to provide pension, disability, and survivor benefits to its members.

Benefit provisions include both duty and non-duty disability retirement and death benefits. Average Final Compensation (AFC) determines the retirement benefit and is calculated as the highest 36 months of earned employee compensation (excluding compensation for unused vacation and sick leave and amounts elected to be deferred under Section 125 of the Internal Revenue Code) during the last 60 months of service. Generally, the normal retirement benefit is 2% of AFC for each full year of service, plus 1/12 of 2% for each whole month of a partial year of service to a maximum of 100% of AFC. There are modifications to the normal retirement benefit for early and deferred retirement, duty and non-duty disability, and death benefits.

Cost of Living Adjustments

Retirement pension may be adjusted annually for changes in the Consumer Price Index. The maximum adjustment is 4% compounded annually.

Membership

	<u>2012</u>	<u>2011</u>
Active employees - nonvested	737	692
Active employees - vested	1,661	1,612
Retirees and beneficiaries currently receiving benefits	1,299	1,283
Terminated plan members entitled to but not yet receiving benefits	75	81
	<u>3,772</u>	<u>3,668</u>

Annual Required Contributions - Actuarial Assumptions

Valuation date	12/31/11
Actuarial cost method	Individual entry age
Amortization method	Level percentage of payroll
Amortization period	30 years, closed
Actuarial asset valuation method	4-year smoothed market
Actuarial Assumptions	
Investment rate of return	8%
Cost of living benefit increases (maximum)	4%
Inflation	4.5%
Projected salary increases	4.5% to 8.3%
Mortality table	1994 group annuity table set forward 1 year for women and 3 years for men

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the System and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the System and Plan members to that point. Actuarial calculations reflect a long-term perspective. The actuarial methods and assumptions used techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of calculations.

For the actuarial valuation dated December 31, 2011, the amortization period changed from 25 years, closed, to 30 years, closed.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and that actuarial determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

III. B. ANNUAL PENSION COST, TREND INFORMATION, AND RESERVES

Annual Pension Cost and Trend Information

Fiscal <u>Year</u>	Annual Pension <u>Cost</u>	Percentage <u>Contributed</u>	Net Pension <u>Obligation</u>
2012	\$9,614,625	100%	\$ -
2011	7,132,772	100	-
2010	5,585,595	100	-

Reserves

There are no assets legally reserved for purposes other than the payment of plan member benefits. The Plan held no individual investments (other than U.S. government and U.S. government guaranteed obligations) whose market value exceeds 5% or more of net assets available for benefits. There are no long-term contracts for contributions.

III. C. FUNDING STATUS AND FUNDING PROGRESS

Actuarial value of plan assets (AVA)	\$514,499,000
Actuarial accrued liability (AAL)	593,922,000
Unfunded actuarial accrued liability (UAAL)	79,423,000
Funded ratio (AVA/AAL)	87%
Covered payroll (active Plan members)	109,293,000
UAAL as a percentage of covered payroll	72.7%

The required supplementary information schedules of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

IV. DEFINED CONTRIBUTION PLANS

The System participates in two defined contribution plans administered by the International City Manager's Association Retirement Corporation (ICMA Retirement). Plan provisions and contribution requirements are established or amended by City Council resolution. The plans are money purchase plans qualified under section 401 of the Internal Revenue Code.

Participants of the first plan are comprised of eligible employees hired before September 1, 2001. The City and participants are required to contribute 8.35% and 6.0% of annual covered payroll, respectively. Participants of the first plan vest at service inception and are entitled to 100% of vested contributions.

Participants of the second plan are comprised of eligible employees hired after September 1, 2001. The City and participants are required to contribute 7.0% and 6.0% of annual covered payroll, respectively. Participants of the second plan vest after 5 years of service.

The two plans include 102 participants comprised of City Council appointees and management personnel. The System has no participants.

V. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

V. A. PLAN DESCRIPTION

The System provides post-employment healthcare benefits for retired employees and their dependents through the City of Oklahoma City Post-retirement Medical Plan (the Plan), a single-employer defined benefit healthcare plan administered by the Oklahoma City Post-Employment Benefit Trust (OCPEBT). The benefits, coverage levels, employee contributions and employer contributions are governed by the City and can be amended by the City through its personnel manual and union contracts. The Plan issues a separate report that can be obtained from Human Resources at 420 W. Main, Suite 110, Oklahoma City, OK 73102.

Funding Policies, Contribution Methods and Benefit Provisions

Year established and governing authority	2008; City Council Ordinance
Determination of contribution requirements	City Policy
Employer	64% of premium
Plan members	36% of premium
Funding of administrative costs	Investment earnings
Period required to vest	5 years
Eligibility for distribution	General employees are eligible for membership in the Plan if they retire from the City on or after age 55 with 5 years of service or at any age with 25 years of service. Police officers are eligible for benefits under the Plan if they retire from the City with 20 years of service. Firefighters retiring before January 1, 2003 are eligible for membership. Participation may only be elected at the time of retirement.

Funding Policy

Contribution requirements are actuarially determined and established by City Council ordinance. Beginning January 1, 2012, the employer contribution rate changed from 66% of premium to 64% of premium. The employee contribution is the balance of the premium. Administrative costs are funded with investment earnings.

Benefit Provisions

The City provides post-retirement healthcare benefits to its retirees. The Plan covers all current retirees who elected post-retirement medical coverage and future retired general employees.

The City provides medical benefits either through a fully insured health plan or through a self-insured Group Indemnity Plan. Benefits include general inpatient and outpatient medical services and prescription drug coverage. General employees are eligible for membership in the Plan if they retire from the City on or after age 55 with 5 years of service or at any age with 25 years of service. Coverage for dependents can continue upon the death of the retiree. Spouses of employees who die in active service while eligible for benefits can receive coverage.

Membership

	<u>2012</u>	<u>2011</u>
Active members	3,291	3,182
Retirees and beneficiaries currently receiving benefits	<u>2,162</u>	<u>2,183</u>
	<u><u>5,453</u></u>	<u><u>5,365</u></u>

Annual Required Contributions - Actuarial Assumptions

Valuation date	7/1/11
Actuarial cost method	Projected unit credit with linear proration to decrement
Amortization method	Level percentage of payroll
Amortization period	30 years, open
Actuarial asset valuation method	4-year smoothed market
Actuarial Assumptions	
Investment rate of return	4.9%
Blended discount rate method	The discount rate is based on the expected long-term return on the investments that are used to finance the benefit programs
Inflation	3.0%
Projected salary increases	3.0%
Health care trend rate	4.5% (5.0% for Medicare age)
Mortality table	RP 2000 combined mortality table projected to 2010 using scale AA

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by OCPEBT and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between OCPEBT and Plan members to that point. Actuarial calculations reflect a long-term perspective. The actuarial methods and assumptions used techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of calculations.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and that actuarial determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

V. B. ANNUAL OPEB COSTS, NET OPEB OBLIGATION, TREND INFORMATION AND RESERVES

Annual OPEB Costs and Net OPEB Obligation

	2012		2011		2010	
	System (1)	Total	System	Total	System	Total
Annual required contribution	\$13,954	\$36,181,832	\$16,079	\$39,559,528	\$3,854	\$35,614,202
Interest on net OPEB obligation	1,466	3,802,518	1,079	2,769,469	733	1,966,649
Adjustment to annual required contribution	(1,346)	(3,490,699)	(991)	(2,542,363)	(673)	(1,805,377)
Annual OPEB cost	14,074	36,493,651	16,167	39,786,634	3,914	35,775,474
Contributions made	(8,898)	(20,064,984)	(8,757)	(18,746,938)	(7,584)	(19,424,748)
Increase in net OPEB obligation	5,176	16,428,667	7,410	21,039,696	(3,670)	16,350,726
Net OPEB obligation,						
Beginning of year	28,548	77,444,366	21,138	56,404,670	24,808	40,053,944
End of year	<u>\$33,724</u>	<u>\$93,873,033</u>	<u>\$28,548</u>	<u>\$77,444,366</u>	<u>\$21,138</u>	<u>\$56,404,670</u>

(1) In fiscal year 2010, the ratio used to distribute OPEB costs to participating funds was changed from salaries to full-time employees.

Trend Information

Fiscal Year <u>Ended</u>	Annual OPEB <u>Cost</u>	Employer <u>Contributions</u>	Percentage of Annual OPEB <u>Cost Contributed</u>	Net OPEB <u>Obligation</u>
2012	\$36,493,651	\$20,064,984	55.0%	\$93,873,033
2011	39,786,634	18,746,938	47.1	77,444,366
2010	35,775,474	19,424,748	54.3	56,404,670

Reserves

There are no assets legally reserved for purposes other than the payment of plan member benefits for either plan. The plans held no individual investments (other than U.S. government and U.S. government guaranteed obligations) whose market value exceeds 5% or more of net assets available for benefits. There are no long-term contracts for contributions.

V. C. FUNDED STATUS AND FUNDING PROGRESS

Actuarial Value of Plan Assets (AVA)	\$15,017,721
Actuarial Accrued Liability (AAL)	483,931,717
Unfunded Actuarial Accrued Liability (UAAL)	468,913,996
Funded Ratio (AVA/AAL)	3%
Covered Payroll (Active Plan Members)	180,551,843
UAAL as a Percentage of Covered Payroll	259.7%

The required supplementary information schedules of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. OCPEBT financial statements including the actuarial report referred to in this note may be obtained from Finance Department, Accounting Services Division, 100 N. Walker, Suite 300, Oklahoma City, OK 73102.

VI. RELATED PARTY TRANSACTIONS

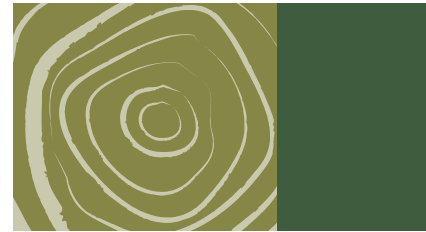
As of June 30, 2012 and 2011, the System held judgments in the amounts of \$2,299,314 and \$2,488,410, respectively. The judgments earn 5.25 percent interest. State Statutes permit the System to purchase judgments rendered against the City throughout the year. In November of each year, the City (through the property tax levy process) pays the System for the principal amount and earned interest for each purchased judgment.

The System reimburses the City for the cost of providing financial and other services. Amounts charged are expensed during the period incurred. For fiscal years ending June 30, 2012 and 2011, the System reported charges for City services of \$95,157 and \$100,062, respectively.

The City also reimburses the System for the cost of providing services. System staff provided administrative services for the City's deferred compensation and defined contribution plans. However, responsibilities are contractually limited and the System does not hold or administer these plan assets in a trustee capacity. Revenue for services is reported in the period earned. For fiscal years ending June 30, 2012 and 2011, the System reported income for services of \$33,092 and \$33,112, respectively.

For the 2012 and 2011 fiscal years, the System reported additions of \$8,898 and \$8,757, respectively, that were contributed to the OCPEBT on behalf of the System and will be used to pre-fund medical benefits to be provided in future fiscal years.

**Required
Supplementary
Information**



REQUIRED SUPPLEMENTARY INFORMATION

OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM

OKLAHOMA CITY EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PENSION PLAN

I. SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	Percentage of Covered Payroll
Date	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c
12/31/11	\$514,499,000	\$593,922,000	\$79,423,000	87%	\$109,293,000	73%
12/31/10	524,731,000	566,834,000	42,103,000	93	102,915,000	41
12/31/09	529,137,000	556,427,000	27,290,000	95	110,408,000	25
12/31/08	528,664,000	519,234,000	(9,430,000)	102	105,566,000	(9)
12/31/07	529,876,000	488,827,000	(41,049,000)	108	99,574,000	(41)
12/31/06	476,913,000	457,547,000	(19,366,000)	104	95,504,000	(20)

II. SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year-ended	Employer's Contribution Rate	Annual Required Contribution	Percentage Contributed
2012	8.56%	\$9,614,625	100%
2011	6.77	7,132,772	100
2010	6.77	5,585,595	100
2009	5.04	5,464,178	100
2008	6.16	7,211,608	100
2007	7.94	8,479,329	100

III. NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

See Note III. PENSION PLAN for actuarial assumptions and other information used to determine the annual required contributions. Schedule of funding progress amounts are reported in even thousands. Amounts reported in brackets in unfunded AAL indicate funding in excess of the actuarial accrued liability. The annual required contribution as reported in the actuarial report is based on calendar years. The financial statements are based on fiscal year-ends, therefore, the annual required contribution amounts shown in the actuarial report will not tie to this schedule.

OKLAHOMA CITY POST-EMPLOYMENT BENEFIT TRUST OTHER POST-EMPLOYMENT BENEFIT PLAN

I. SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Date	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c
7/1/2011	\$15,017,721	\$483,931,717	\$468,913,996	3.1%	\$180,551,843	260%
7/1/2010	11,565,753	517,681,810	506,116,057	2.2	175,293,051	289
7/1/2009	8,252,345	479,805,848	471,553,503	1.7	176,563,546	267

II. SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year-ended	Employer Contribution	Annual Required Contribution	Percentage Contributed
2012	\$20,064,984	\$36,181,832	55%
2011	18,746,938	39,559,528	47
2010	19,424,748	35,614,202	55

III. NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

See Note V. OTHER POST-EMPLOYMENT BENEFITS (OPEB) for actuarial assumptions and other information used to determine the annual required contributions.

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**SUPPORTING SCHEDULES
For the Fiscal Years Ended June 30,**

**OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM**

SCHEDULE OF ADMINISTRATIVE EXPENSES

	<u>2012</u>	<u>2011</u>
<u>PERSONAL SERVICES</u>		
Staff salaries and benefits	\$201,787	\$191,253
Compensated absences	6,317	3,909
OPEB Expense	<u>14,074</u>	<u>16,167</u>
Total personal services	<u>222,178</u>	<u>211,329</u>
<u>PROFESSIONAL SERVICES</u>		
Actuarial	59,450	34,976
Accounting	18,882	22,461
Information technology services	24,718	24,667
Audit	22,971	27,782
Benefit payment services	22,210	23,020
Medical exams	-	1,800
Bank fees	1,577	1,794
Legal fees	20,842	3,686
Other administrative services	<u>42,657</u>	<u>44,177</u>
Total professional services	<u>213,307</u>	<u>184,363</u>
Training and education	<u>27,569</u>	<u>19,454</u>
<u>MISCELLANEOUS</u>		
Supplies	1,854	1,556
Other	<u>11,104</u>	<u>12,636</u>
Total miscellaneous	<u>12,958</u>	<u>14,192</u>
 Total administrative expenses	<u>\$476,012</u>	<u>\$429,338</u>

SCHEDULE OF INVESTMENT EXPENSES AND SECURITIES LENDING MANAGEMENT FEES

	<u>2012</u>	<u>2011</u>
Management fees	\$1,306,349	\$1,258,417
Custodial fees	99,392	99,156
Investment performance analysis	<u>105,000</u>	<u>100,000</u>
Total investment expenses	<u>\$1,510,741</u>	<u>\$1,457,573</u>
Securities lending management fees	<u>\$32,688</u>	<u>\$25,415</u>

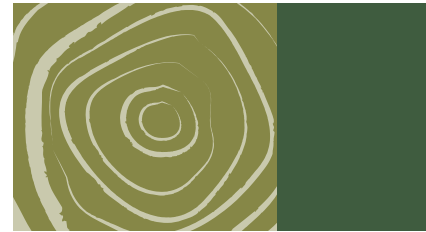
SCHEDULE OF CONSULTING EXPENSES (1)

		<u>2012</u>	<u>2011</u>
Gabriel, Roeder, Smith & Co.	Actuarial	\$59,450	\$34,976
Asset Consulting Group, Inc.	Consulting	105,000	100,000
BKD LLP	Auditing	22,971	27,782
Davis Graham & Stubbs LLP	Legal	15,634	3,686

(1) For fees and commissions paid to investment professionals, see the Schedule of Fees and Commissions in the Investment Section of this report.

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Investment





ASSET CONSULTING GROUP

231 SOUTH BEMISTON AVENUE
14TH FLOOR
ST. LOUIS, MISSOURI 63105
TEL 314.862.4848
FAX 314.862.5967
WWW.ACGNET.COM

September 17, 2012

Oklahoma City Employees Retirement System
Oklahoma City, Oklahoma

The investment performance returns as shown in the five year investment performance review are all calculated using information derived from monthly statements provided by the Fund's custodial institution. Monthly returns are calculated using a time-weighted rate of return methodology based upon beginning and end of month market values and cash flows. Monthly returns are linked to provide compounded, annual, and annualized rates of return for periods of one, three, five years and beyond when available. The returns as shown in this report are gross of investment manager fees.

The investment performance of the Total Fund and its segments is compared to relevant benchmark returns and presented to the Board of Trustees on a monthly basis. For the Total Fund, the benchmark is an index which reflects the asset mix policy established by the Board of Trustees and is referred to as the Policy Portfolio. Comparisons to the Policy Portfolio, the median total fund universe, and the median return of a universe of total funds with similar asset allocation are presented to the Board of Trustees on a quarterly basis.

All of the above comparisons are included in the Statement of Investment Policy, Objectives, and Guidelines, and are also reported to the Board of Trustees on a quarterly basis. Investment objectives are spelled out for the Total Fund and each of the segments for one year time periods and longer (3-5 years), and include protecting the fund corpus, both nominally and in terms of inflation, achieving a return in excess of the risk free rate of return (90 day U.S. T-bills), achieving a return in excess the actuarial required return, and a return in excess of the median return of a universe of funds with similar asset mix, and achieving a return in excess of that of an unmanaged index return (constructed to reflect the asset mix of the Fund's assets). In addition, investment managers are monitored for adherence to style, both on a returns-based regression analysis as well as a holdings-based characteristic analysis versus the appropriate benchmarks specified in the Statement of Investment Policy, Objectives, and Guidelines. Current asset allocation ranges, and targets within those ranges, are measured against target ranges established in the Statement of Investment Policy, Objectives, and Guidelines on a monthly basis. The status of each is also presented in a monthly investment performance review submitted to the Board of Trustees.

The risk profile of the Total Fund and its segments is also measured quarterly for one, three, five years and beyond when available, and includes the usual MPT statistics: alpha, beta, R², and standard deviation. To further reduce risk, Fund assets are diversified by asset class, by security, by investment manager, and by investment manager style. The fund has a long term strategic target allocation of 60% to equity, 25% to fixed income, and 15% to real assets.

Respectfully submitted,

Jason C. Pulos, CFA
Managing Director

INVESTMENT POLICY SUMMARY (STATEMENT)

I. POLICY PURPOSE AND OBJECTIVES

The primary objective of the Oklahoma City Employee Retirement System (System) is to provide eligible employees with retirement benefits. Assets will be invested in a diversified portfolio to achieve attractive real rates of return. Following prudent standards for preservation of capital, the goal is to achieve the highest possible rate of return consistent with the Plan's tolerance for risk as determined by the Board of Trustees in its role as fiduciary.

II. PARTIES ASSOCIATED WITH THE SYSTEM

Board of Trustees (Board)

The Board is responsible for the appropriateness and execution of the investment policy. The Board accomplishes this by retaining and meeting regularly with: an investment consultant, investment managers, and a custodian; who then aide in defining and reviewing the adequacy of the investment policy, as well as the objectives and guidelines for the System.

Investment Consultant

The investment consultant aides in developing a management team of investment managers, monitors their performance, and then provides the Board with a quarterly report. Their position also evaluates and makes recommendations on portfolio management and other areas of investments.

Investment Managers

Investment managers are hired in a fiduciary capacity, and as such, are responsible for specific securities decisions and have full discretion in the management of assets, subject to the overall investment policy.

Custodian

The custodian's fiduciary position accepts possession of securities for safekeeping and oversees the collection and disbursement of income, provides accounting statements and status reports to the Board, and maintains the securities lending program. The Custodian interacts with the investment managers in relation to the securities held in account; and meets with the Board as required.

Investment Committee

The System's investment committee meets to discuss investment issues with the consultant and investment managers, makes recommendations to the Board for consideration, and is the source for policy clarification.

III. INVESTMENT OBJECTIVES AND GUIDELINES

III. A. OBJECTIVES

The Board structures the System's portfolio for maximum investment style diversification and expected total return investment results. As applicable to the equities portfolio, the total return concept means dividend income plus realized and unrealized capital appreciation. The Board achieves this by retaining multiple equity and fixed income portfolio investment managers and brokers from external professional organizations, purchasing judgments of the City of Oklahoma City (City), and implementing various programs.

Fixed income investments constitute a portion of the System's assets to primarily reduce the volatility of the total portfolio, in addition to providing current income.

The investment managers operate within a set of guidelines, objectives, and constraints. The Board follows the policy that, except for established guidelines and unusual circumstances, no restrictions will be placed on the selection of individual investments by the investment managers.

The investment managers vote proxies in the manner which they feel will most benefit the System, however, the Board reserves the right to instruct the investment managers on how to vote individual proxies. The investment managers retain records of proxy voting and, upon request, makes these records available to the Board.

The Board has authorized a commission recapture program whereby certain brokers rebate 50% or more of their commissions back to the System. The recapture brokers provide monthly transaction reports to the Board or its representative for review.

The Board instituted a securities lending program to generate additional income above and beyond that produced through dividend, interest and capital appreciation. The Board receives collateral, consistent with industry standards, of at least 102% of market value, initially, on equity securities and 100% on fixed income securities. Securities are priced daily and collateral adjustments (marked to market) made as required.

Trustees, officers, employees, investment managers and investment consultants involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees, investment officials and investment consultants shall disclose to the Chairperson of the Board any direct financial interests in financial institutions that conduct business with the System, and they shall further disclose any personal financial investment positions that could be related to the performance of the System. Such disclosure shall be made to the Board within 90 days of any such position being taken. Employees, officers, Trustees and investment consultants shall subordinate their personal investment transactions to those of the System, particularly with regard to the timing of purchases and sales.

The System is subject to an annual audit of its financial position. The Board or Chairperson may establish internal control procedures, as deemed necessary for services performed by the City and/or its employees on behalf of the System.

III. B. PORTFOLIO ASSET ALLOCATION GUIDELINES

Target percentages have been determined for each asset class. Percentage allocations are intended to serve as guidelines; the Board will not be required to remain strictly at the designated allocation. Market conditions or an investment transition (asset class or investment manager) may require an interim investment strategy and, therefore, a temporary imbalance in asset mix.

	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>		<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Equities				Fixed Income			
Large Cap Domestic	15.0%	20.0%	25.0%	Core Bonds	2.5%	5.0%	10.0%
Small Cap Domestic	5.0	10.0	15.0	Core Plus Bonds	2.5	7.5	12.5
International	5.0	10.0	15.0	Global Bonds	2.5	7.5	12.5
Emerging Market Equities	0.0	5.0	10.0	Low Volatility Hedge	0.0	5.0	10.0
Long/Short Equity	5.0	10.0	15.0	Real Assets	10.0	15.0	20.0
Private Equity	0.0	5.0	7.5				

For purposes of this policy statement fixed income may include certain hedge fund strategies that exhibit similar volatility to fixed income with low correlation to long, only equity and fixed income markets. The above target allocations will be achieved over an appropriate time period, based on market conditions, investment manager availability and portfolio needs and constraints.

The Board, in conjunction with its investment consultant, will formally review asset allocation on an annual basis for potential rebalancing to target levels as established by the investment policy. The Board will informally monitor rebalancing needs to maintain compliance with the investment policy on a monthly basis.

III. C. PERFORMANCE OBJECTIVES

The System's investment total return is expected to provide equal or superior results, using a three-year moving average, relative to the following benchmarks:

- An absolute return objective of 8.0% (or current actuarial rate).
- A relative return objective of 40% S&P 500 Index, 10% Russell 2000 index, 10% MSCI-EAFE, 35% Barclays Capital Bond Index, 5% NCREIF Property Index.
- A relative return objective of above median in consultant's total fund peer group universe.

III. D. ANNUAL REVIEW OF GUIDELINES

In view of the rapid changes within the capital markets and investment management techniques, the Board and its investment managers should review these guidelines annually. Any recommended changes to the investment policy should be communicated in writing to the Board for review. Exceptions to these guidelines may be made anytime with the written approval of the Board.

IV. INVESTMENT MANAGER OBJECTIVES AND PERFORMANCE

IV. A. INVESTMENT OBJECTIVE OF INVESTMENT MANAGERS

The investment management style and process of each investment manager is important because of the manner in which each style blends with the structure of the portfolio; therefore, adherence to this discipline is a critical issue. The portfolio should be managed in a style consistent with the investment manager's other portfolios within the same investment mandate or product. Any significant deviation from the investment manager's stated style will require written approval from the Board.

IV. B. PERFORMANCE CRITERIA FOR MONEY MANAGERS

Investment manager performance is monitored over current and long term time periods. Performance will be reviewed over the following periods with an emphasis on 3 and 5 year periods:

- 3 months
- Year to date
- One Year
- Three Years
- Five Years

The investment manager's performance will be evaluated on absolute return, relative return, volatility profile, and consistency with stated style.

IV. C. INVESTMENT MANAGER PERFORMANCE EXPECTATIONS

Investment manager portfolios should outperform the designated broad based or other relevant benchmark over a market cycle. Relative performance should be above median over a market cycle when compared to relevant peer groups.

INVESTMENT SUMMARY
June 30, 2012

	Domestic Common Stock	Passive Domestic Stock Funds	Preferred Stock	Government Securities/Fixed Income	Passive Bond Fund
<u>EQUITY</u>					
<u>DOMESTIC COMMON</u>					
<u>STOCK</u>					
Active, small cap growth	\$24,292,330	\$ -	\$ -	\$ -	\$ -
Active, small cap value	25,349,075	-	1,690,001	-	-
Active, large cap core	63,144,903	-	1,268,786	-	-
Passive, large cap S&P 500	-	69,658,147	-	-	-
Hedge-long/short	-	-	-	-	-
<u>INTERNATIONAL STOCKS</u>					
Active, large cap value	-	-	-	-	-
Active, large cap growth	-	-	-	-	-
Active, emerging markets	-	-	-	-	-
<u>FIXED INCOME</u>					
Active	-	-	-	85,610,097	5,516,123
Passive	-	-	-	-	32,821,997
Hedge-low volatility	27,790,746	-	-	-	-
<u>REAL ASSETS</u>					
Real Estate	-	-	-	-	-
<u>PRIVATE EQUITY</u>					
	10,676,641	-	-	-	-
<u>OTHER</u>					
Treasury money market fund	-	-	-	-	-
Oklahoma City judgments	-	-	-	-	-
	<u>\$151,253,695</u>	<u>\$69,658,147</u>	<u>\$2,958,787</u>	<u>\$85,610,097</u>	<u>\$38,338,120</u>

**OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM**

International Stock	Passive International Stock Fund	Treasury Money Market Fund	Real Estate	Oklahoma City Judgments	Accrued Income	Total
\$2,345,873	\$ -	\$1,170,278	\$ -	\$ -	\$3,732	\$27,812,213
682,620	-	2,003,731	-	-	35,442	29,760,869
2,016,783	-	422,666	-	-	74,501	66,927,639
-	-	182,493	-	-	-	69,840,640
50,228,726	-	-	-	-	-	50,228,726
21,620,218	-	16,312	-	-	-	21,636,530
18,830,828	-	1,755	-	-	-	18,832,583
19,049,979	-	-	-	-	-	19,049,979
7,190,792	9,631,391	14,837,153	-	-	575,540	123,361,096
-	-	52,830	-	-	-	32,874,827
-	-	1,533	-	-	-	27,792,279
-	-	1,854	30,598,361	-	-	30,600,215
-	-	-	-	-	-	10,676,641
-	-	-	-	-	-	-
-	-	-	-	2,299,314	126,272	2,425,586
<u>\$121,965,819</u>	<u>\$9,631,391</u>	<u>\$18,690,605</u>	<u>\$30,598,361</u>	<u>\$2,299,314</u>	<u>\$815,487</u>	<u>\$531,819,823</u>

INVESTMENT HOLDINGS COST TO MARKET
June 30, 2012

OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM

	<u>Cost of</u> <u>Holdings</u>	<u>Cash</u> <u>Equivalents</u>	<u>Cost</u>	<u>Market</u> <u>Value</u>	<u>% of Total</u> <u>Market Value</u>
<u>EQUITY</u>					
<u>DOMESTIC COMMON</u>					
<u>STOCK</u>					
Active, small cap growth	\$22,753,719	\$1,170,278	\$23,923,997	\$27,812,213	5.23%
Active, small cap value	21,409,936	2,003,731	23,413,667	29,760,869	5.60
Active, large cap core	59,796,822	422,666	60,219,488	66,927,639	12.58
Passive, large cap S&P 500	51,104,447	182,493	51,286,940	69,840,640	13.13
Hedge-long/short	47,512,517	-	47,512,517	50,228,726	9.44
<u>INTERNATIONAL STOCKS</u>					
Active, large cap value	15,170,223	16,312	15,186,535	21,636,530	4.07
Active, large cap growth	35,869,397	1,755	35,871,152	18,832,583	3.54
Active, large cap growth	-	-	-	19,049,979	3.58
<u>FIXED INCOME</u>					
Active	103,247,609	14,837,153	118,084,762	123,361,096	23.20
Passive	29,836,225	52,830	29,889,055	32,874,827	6.18
Hedge-low volatility	27,790,746	1,533	27,792,279	27,792,279	5.23
<u>REAL ASSETS</u>					
Real Estate	34,713,252	1,854	34,715,106	30,600,215	5.75
<u>PRIVATE EQUITY</u>					
	9,646,754	-	9,646,754	10,676,641	2.01
<u>OTHER</u>					
Money market fund	-	-	-	-	0.00
Oklahoma City judgments	<u>2,299,314</u>	-	<u>2,299,314</u>	<u>2,425,586</u>	0.46
	<u>\$461,150,961</u>	<u>\$18,690,605</u>	<u>\$479,841,566</u>	<u>531,819,823</u>	
<u>INTEREST AND DIVIDEND INCOME (1)</u>					
Equities				(111,575)	
Fixed Income				(577,641)	
Judgments				(126,271)	
				<u>\$531,004,336</u>	

(1) For purposes of portfolio evaluation by the consultant and to follow the investment policy guidelines, the investment categorization on this schedule does not tie to the statements of plan net assets. Interest income, dividend income and money market positions are included as shown above. See the investment summary for a reconciliation of this presentation to the statement of net assets presentation.

INVESTMENT RESULTS (1)
As of June 30, 2012

OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
<u>TOTAL PORTFOLIO</u>			
System Composite	2.4%	11.0%	1.9%
Median Total Fund (between 55-70% Equity)	1.1	11.8	1.9
Policy Index	4.0	12.3	2.6
<u>EQUITIES</u>			
<u>LARGE CAP - PASSIVE</u>			
State Street Global Advisors S & P 500 Flagship Fund (inception March 2008)	5.4	16.4	N/A
Standard & Poor's 500 Index	5.5	16.4	0.2
<u>LARGE CAP - ACTIVE</u>			
Enhanced Investment Technologies, LLC (inception January 2007)	4.3	17.6	1.0
Russell 1000	4.4	16.6	0.4
<u>SMALL CAP VALUE</u>			
Earnest Partners (inception May 2003)	(3.0)	16.0	0.5
Russell 2500 Value Index	(1.5)	18.4	(0.6)
<u>SMALL CAP GROWTH</u>			
Timesquare Capital Management LLC (inception February 2010)	5.4	N/A	N/A
Russell 2500 Growth Index	(3.2)	19.4	2.4
<u>HEDGE FUND - LONG/SHORT</u>			
K2 Advisors (inception January 2005)	(3.7)	1.9	(0.5)
Standard & Poor's 500 Index	5.5	16.4	0.2
<u>INTERNATIONAL</u>			
<u>LARGE CAP VALUE</u>			
Grantham, Mayo, VanOtterloo (inception February 2004)	(13.3)	5.8	(6.1)
Morgan, Stanley, Capital International/Europe, Australia, and Far East	(13.4)	6.5	(5.6)
<u>LARGE CAP GROWTH</u>			
Harding Loevner (inception June 2012)	N/A	N/A	N/A
Morgan, Stanley, Capital International/Europe, Australia, and Far East	(13.4)	6.5	(5.6)
<u>EMERGING MARKETS</u>			
Vontobel (inception June 2012)	N/A	N/A	N/A
MSCL Emerging Markets Index	(15.7)	10.1	0.2
<u>FIXED INCOME</u>			
<u>CORE BONDS - PASSIVE</u>			
State Street Global Advisors Passive Bond Market Securities Lending Index Fund	7.4	6.9	6.8
Barclays Capital Aggregate	7.5	6.9	6.8
<u>CORE BONDS - ACTIVE</u>			
Western Asset Management (inception January 2003)	8.0	11.0	6.4
Barclays Capital Aggregate	7.5	6.9	6.8
<u>HEDGE FUND - LOW VOLATILITY</u>			
PAAMCO (inception February 2006)	(4.3)	4.0	0.7
Barclays Capital Aggregate	7.5	6.9	6.8
<u>REAL ESTATE</u>			
Prime Property Fund LLC	14.2	8.3	N/A
National Counsel of Real Estate Investment Fiduciaries Property Index	11.3	7.4	(1.8)
<u>PRIVATE EQUITY</u>			
Siguler Guff, Mesirow	(0.4)	10.0	N/A
<u>INTERNAL</u>			
City of Oklahoma City Judgments	5.0	4.8	6.0
Merrill Lynch 1-3 Year Treasury Bond	0.8	1.6	3.3

(1) Monthly returns are calculated using a time-weighted rate of return methodology based on beginning and ending market values and cash flows and are linked to provide compounded, annual, and annualized rates of return for periods of one, three, and five years. The returns as shown in this report are net of transaction costs and investment manager fees.

**ASSET ALLOCATION (1)
June 30, 2012**

**OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM**

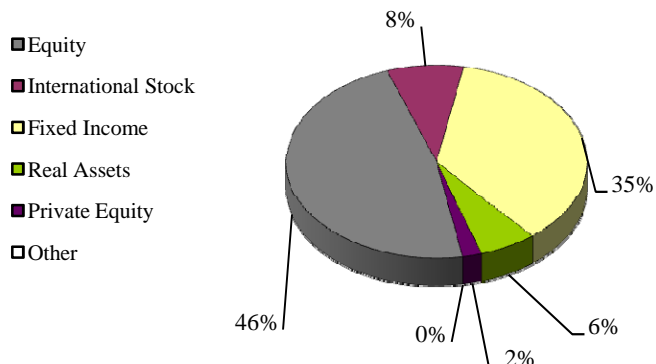
	<u>Market Value of Holdings</u>	<u>Cash Equivalents</u>	<u>Accrued Income</u>	<u>Market Value</u>	<u>% of Total Market Value</u>	<u>% of Model Portfolio</u>
<u>EQUITY</u>						
<u>DOMESTIC COMMON STOCK</u>						
Active, small cap	\$54,359,899	\$3,174,009	\$39,174	\$57,573,082	10.84%	
Active, large cap	66,430,472	422,666	74,501	66,927,639	12.58	
Passive, large cap	69,658,147	182,493	-	69,840,640	13.13	
Hedge-long/short	50,228,726	-	-	50,228,726	<u>9.44</u>	
					<u>45.99</u>	45.0%
<u>INTERNATIONAL STOCK</u>						
Active, large cap	59,501,025	18,067	-	59,519,092	<u>7.61</u>	10.0
<u>FIXED INCOME</u>						
Active	107,948,403	14,837,153	575,540	123,361,096	23.20	
Passive	32,821,997	52,830	-	32,874,827	6.18	
Hedge-low volatility	27,790,746	1,533	-	27,792,279	<u>5.23</u>	
					<u>34.61</u>	25.0
<u>REAL ASSETS</u>						
Real Estate	30,598,361	1,854	-	30,600,215	5.75	15.0
<u>PRIVATE EQUITY</u>						
	10,676,641	-	-	10,676,641	2.01	5.0
<u>OTHER</u>						
Treasury money market fund	-	-	-	-	0.00	
Oklahoma City judgments	<u>2,299,314</u>	-	<u>126,272</u>	<u>2,425,586</u>	<u>0.46</u>	
					<u>0.46</u>	<u>0.0</u>
	<u>\$512,313,731</u>	<u>\$18,690,605</u>	<u>\$815,487</u>	<u>531,819,823</u>	<u>96.42%</u>	<u>100.0%</u>

INTEREST AND DIVIDEND INCOME

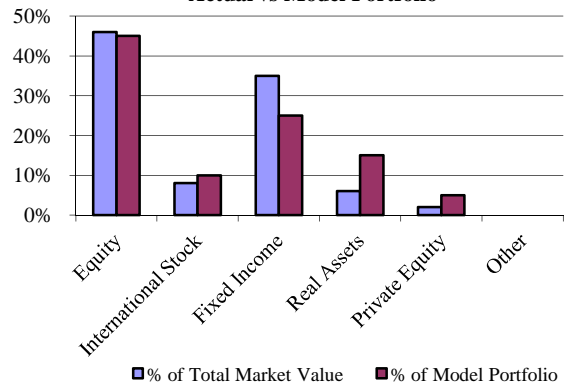
Equities	(111,575)
Fixed Income	(577,641)
Judgments	<u>(126,271)</u>
	<u>\$531,004,336</u>

(1) For purposes of portfolio evaluation by consultant and to follow the investment policy guidelines, the investment categorization on this schedule does not tie to the statements of plan net assets. Accrued income and cash equivalent positions are included. See the investment summary for a reconciliation of this presentation to the statement of net assets presentation.

Asset Allocation by Class



Actual vs Model Portfolio



LARGEST HOLDINGS (1)
June 30, 2012

OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM

10 Largest Stock Holdings (by market value)

<u>Shares</u>	<u>Stock</u>	<u>Market Value</u>
29,400	Exxon Mobil Corporation	\$2,515,758
3,300	Apple, Inc.	1,927,200
28,700	SBA Communications	1,637,335
7,300	International Business Machines Corp.	1,427,734
13,900	Cummins Engine Company, Inc.	1,347,049
19,000	American Tower Corporation	1,328,290
12,200	Chevron Corporation	1,287,100
34,437	AT&T, Inc.	1,228,023
12,000	Davita	1,178,520
14,900	Johnson & Johnson	1,006,644

10 Largest Fixed Income Holdings (by market value)

<u>Par</u>	<u>Bonds</u>	<u>Rate</u>	<u>Maturity</u>	<u>Market Value</u>
\$3,740,000	United States Treasury Bonds	3.125%	11/15/2041	\$4,020,500
3,700,000	Federal National Mortgage Association	3.000	15 Yr Jul (2)	3,876,342
2,600,000	Federal National Mortgage Association	0.000 (3)	7/2/2012	2,600,000
2,000,000	Government National Mortgage Association	3.500	30 Yr Jul (2)	2,137,500
2,260,000	United States Treasury Notes	1.250	4/30/2019	2,285,063
2,000,000	United States Treasury Notes	2.000	11/15/2021	2,073,600
1,600,000	Federal National Mortgage Association	2.500	15 Yr Jul (2)	1,648,499
1,600,000	Federal National Mortgage Association	3.000	30 Yr Jul (2)	1,640,752
1,457,373	Federal Home Loan Mortgage Corporation	6.000	11/1/2039	1,603,562
1,146,035	Government National Mortgage Association	4.500	3/20/2041	1,262,369

(1) A complete list of portfolio holdings is available upon request.

(2) Mortgage backed securities.

(3) Discount notes.

SCHEDULE OF FEES AND COMMISSIONS
June 30, 2012

OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM

INVESTMENT MANAGEMENT FEES

	<u>Market Value of Holdings (1)</u>	<u>Cash Equivalents</u>	<u>Accrued Income</u>	<u>Total Assets under Management</u>	<u>Fees</u>
<u>EQUITY MANAGERS</u>					
<u>ACTIVE</u>					
Timessquare Capital Management, LLC New York, NY	\$26,638,203	\$1,170,278	\$3,732	\$27,812,213	\$259,736
Earnest Partners; Atlanta, GA	27,721,696	2,003,731	35,442	29,760,869	228,554
Enhanced Investment Technologies, LLC; Palm Beach Gardens, FL	66,430,472	422,666	74,501	66,927,639	273,769
<u>PASSIVE</u>					
State Street Global Advisors; Boston, MA	69,658,147	182,493	-	69,840,640	31,931
<u>HEDGE</u>					
K2 Advisors; Stanford, CT (2)	50,228,726	-	-	50,228,726	-
<u>INTERNATIONAL INVESTMENT MANAGERS</u>					
<u>ACTIVE</u>					
Grantham, Mayo, VanOtterloo & Co.; Boston, MA	21,620,218	16,312	-	21,636,530	164,983
Harding Loevner; Bridgewater, NJ	18,830,828	1,755	-	18,832,583	26,368
Vontobel Asset Management; New York, NY	19,049,979	-	-	19,049,979	-
<u>FIXED INCOME MANAGERS</u>					
<u>ACTIVE</u>					
Western Asset Management; Pasadena, CA	107,948,403	14,837,153	575,540	123,361,096	305,511
<u>PASSIVE</u>					
State Street Global Advisors; Boston, MA	32,821,997	52,830	-	32,874,827	15,497
<u>HEDGE</u>					
Pacific Hedged Strategies LLC; New York, NY (2)	27,790,746	1,533	-	27,792,279	-
<u>REAL ESTATE</u>					
Morgan Stanley Prime Property Fund; New York, NY (2)	30,598,361	1,854	-	30,600,215	-
<u>PRIVATE EQUITY</u>					
Siguler Guff; New York, NY	10,676,641	-	-	10,676,641	-
Mesirow; Chicago, IL	-	-	-	-	-
<u>OTHER</u>					
JPMorgan Money Market; Boston, MA	-	-	-	-	-
Oklahoma City Judgments	2,299,314	-	126,272	2,425,586	-
	<u>\$512,313,731</u>	<u>\$18,690,605</u>	<u>\$815,487</u>	531,819,823	<u>\$1,306,349</u>
<u>INTEREST AND DIVIDEND INCOME</u>					
Equities				(111,575)	
Fixed Income				(577,641)	
Judgments				(126,271)	
				<u>\$531,004,336</u>	

(1) For purposes of portfolio evaluation by the consultant and to follow the investment policy guidelines, the investment categorization on this schedule does not tie to the statements of plan net assets. Interest income, dividend income and money market positions are included as shown above. See the investment summary for a reconciliation of this presentation to the statement of net assets presentation.

(2) Fees are netted with earnings for each respective fund.

SCHEDULE OF FEES AND COMMISSIONS
June 30, 2012

OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM

OTHER INVESTMENT SERVICE FEES (1)

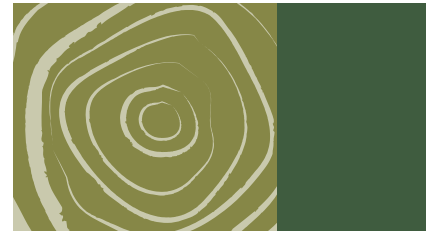
Custodial Fees	<u>\$99,392</u>
Investment Consultant Fees	<u>\$105,000</u>
Securities Lending Management Fees	<u>\$32,688</u>

(1) Fees are netted with earnings for each respective fund.

BROKER COMMISSION

<u>Broker</u>	<u>Shares</u>	<u>Commission Expense</u>	<u>Average Cost/Share</u>
Deutsche Banc Securities, Inc.	608,518	\$11,774	0.019348647
Knight Equity Markets L.P.	578,100	11,311	0.019565819
CAP Institutional Services Inc.	481,401	8,770	0.018217661
Jefferies & Company	570,299	7,379	0.012938827
Credit Suisse Securites(USA)	402,945	7,121	0.017672387
Instinet Corporation	409,428	6,935	0.016938265
Lynch, Jones, & Ryan, Inc.	449,700	6,112	0.013591283
Merrill Lynch Pierce Fenner & Smith	593,637	6,030	0.010157723
Weeden & Co.	289,158	5,372	0.018578078
UBS Securities LLC	225,280	4,261	0.018914240
Rosenblatt Securities	234,341	4,136	0.017649494
Baypoint Trading LLC	56,300	2,815	0.050000000
Guzman & Company	142,531	2,439	0.017112067
Bernstein, Sanford & Company	154,940	2,178	0.014057054
Investment Technology Group	72,200	2,148	0.029750693
Liquidnet, Inc.	107,000	2,140	0.020000000
Century Securities	39,900	1,995	0.050000000
All others \$1,500 or less	<u>400,700</u>	<u>17,953</u>	0.044804093
	<u>5,816,378</u>	<u>\$110,869</u>	

Actuarial



September 13, 2012

The Board of Trustees
Oklahoma City Employee Retirement System
420 W. Main St., Suite 343
Oklahoma City, Oklahoma 73102

Dear Board Members:

The basic financial objective of the Oklahoma City Employee Retirement System (OCERS) is to establish and receive contributions which, expressed as percents of active member payroll, will remain approximately level from generation to generation of Oklahoma City citizens, and when combined with present assets and future investment return will be sufficient to meet the financial obligations of the System to present and future benefit recipients.

The purpose of the valuation was to determine contribution rates for the 2013-2014 fiscal year and to provide actuarial information in connection with applicable Governmental Accounting Standards Board Statements. The valuation should not be relied upon for any other purpose. The valuation process develops contribution rates that are sufficient to fund the plan's normal cost (i.e., the costs assigned by the valuation method to the year of service about to be rendered), as well as to fund the unfunded actuarial accrued liabilities as a level percent of active member payroll over a finite period. The valuation was completed based upon population data, asset data, and plan provisions in effect on December 31, 2011.

The valuation was based upon information, furnished by the plan's administrative staff, concerning Retirement System benefits, financial transactions, and individual members, terminated members, retirees and beneficiaries. We checked the data for internal and year to year consistency, but did not otherwise audit the data. As a result, we do not assume responsibility for the accuracy or completeness of the data provided.

The actuary prepared the following supporting schedules for the Comprehensive Annual Financial Report:

- Solvency Test-Schedule of Funding Progress
- Summary of Benefit Provisions Evaluated or Considered
- Schedule of Retirees and Beneficiaries as of the Valuation Date
- Schedule of Active and Inactive Member Valuation Data
- Summary of Actuarial Assumptions and Methods
- Analysis of Financial Experience – Derivation of Experience Gain (Loss) for Valuation
Years 2007-2011
- Schedule of Retirees and Beneficiaries Added to and Removed From Rolls
- Schedule of Funding Progress
- Schedule of Employer Contributions
- Notes to Required Supplementary Information

Assets are valued on a market related basis that recognizes a portion of each year's investment gain or loss over a closed four year period.

Annual actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rate of investment return and payroll growth, eligibility for the various classes of benefits and longevity among retired lives. These assumptions are adopted by the Board after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the requirements of GASB Statement No. 25. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed.

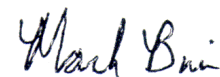
The December 31, 2011 valuation was based upon assumptions that were recommended in connection with a 2006 study of System experience. Future actuarial measurements may differ significantly from those presented in the annual valuations due to such factors as experience differing from that anticipated by actuarial assumptions, changes in plan provisions, actuarial assumptions/methods or applicable law. Due to the limited scope of the assignment, we did not perform an analysis of the potential range of future measurements.

Based upon the results of the December 31, 2011 valuation, we are pleased to report to the Board that the Retirement System is meeting its basic financial objective and continues to operate in accordance with actuarial principles of level percent of payroll financing. All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. The signing actuaries are independent of the plan sponsor. The actuaries submitting this statement are Members of the American Academy of Actuaries (MAAA), and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,



Louise M. Gates, ASA, MAAA



Mark Buis, FSA, MAAA

LMG/MB:mrb
Enclosures

cc: Rena Hutton (Retirement System Administrator)

SOLVENCY TEST – SCHEDULE OF FUNDING PROGRESS
(DOLLAR AMOUNTS IN THOUSANDS)

Valuation Date	Accrued Liabilities (AL)			Total AL	Assets ⁽²⁾	Portion of Liabilities Covered by Assets			
	(1) Member Contribs.	(2) Retirees and Beneficiaries	(3) Active & Inactive Members ⁽¹⁾ (Employer Financed Portion)			(1)	(2)	(3)	Overall
12/31/92	\$24,039	\$ 59,294	\$ 56,040	\$ 139,373	\$ 122,638	100 %	100 %	70 %	88 %
12/31/93	26,732	59,703	60,919	147,354	141,078	100	100	90	96
12/31/94	29,028	63,894	67,915	160,837	151,580	100	100	86	94
12/31/95	31,423	67,408	71,283	170,114	168,203	100	100	97	99
12/31/96	33,507	72,225	75,504	181,236	185,368	100	100	105	102
12/31/97	35,654	76,275	107,169	219,098	219,602	100	100	100	100
12/31/98	37,900	82,258	118,498	238,656	260,877	100	100	119	109
12/31/99	39,866	85,724	120,316	245,906	307,872	100	100	152	125
12/31/00	41,550	100,936	180,814	323,300	350,398	100	100	115	108
12/31/01	42,226	116,552	185,819	344,597	372,737	100	100	115	108
12/31/02	44,368	128,120	200,072	372,560	375,382	100	100	101	101
12/31/03	46,654	136,873	207,496	391,023	374,192	100	100	92	96
12/31/04	48,487	150,664	216,013	415,164	381,495	100	100	84	92
12/31/05	54,239	169,752	212,913	436,904	424,182	100	100	94	97
12/31/06	55,557	187,693	214,297	457,547	476,913	100	100	109	104
12/31/07	60,118	204,470	224,239	488,827	529,876	100	100	118	108
12/31/08	62,128	221,456	235,650	519,234	528,664	100	100	104	102
12/31/09	65,106	237,302	254,019	556,427	529,137	100	100	89	95
12/31/10	64,922	267,120	234,792	566,834	524,731	100	100	82	93
12/31/11	67,324	284,069	242,529	593,922	514,499	100	100	67	87

(1) Beginning with the 12/31/97 valuation, Employer Financed Portion is calculated in accordance with Governmental Accounting Standards Board Statement No. 25, which replaces Statement No. 5 used in prior years. This is the same calculation that is used in computing contribution rates.

(2) Beginning with the 12/31/97 valuation, funding value, pursuant to Governmental Accounting Standards Board Statement No. 25 (prior to 12/31/97, Cost Value was used).

SUMMARY OF BENEFIT PROVISIONS EVALUATED OR CONSIDERED (DECEMBER 31, 2011)

Regular Retirement (no reduction factor for age)

Eligibility - Pre 3-1-67 hires: Age 60 with 20 years of service; or, any age with 30 years of service.

Post 3-1-67 hires: Age 65 with 5 years of service; or, any age with 25 years of service.

Annual Amount - Normal retirement benefit: 2% of average final compensation for all years and complete months of service, to a maximum of 100% of AFC.

Average Final Compensation (AFC) - Average earned compensation (excluding compensation for unused vacation and sick leave) during highest 36 months of service out of the last 60 consecutive months of service.

Early Retirement (reduction factor for age)

Eligibility - Age 55 with 5 years of service.

Annual Amount - Same as regular retirement amount but reduced 4% for each full year or portion of a year that payments commence prior to age 65 (age 60 if hired prior to 3-1-67).

Deferred Retirement (vested benefit)

Eligibility - 5 years of service. Benefit begins at age 65 (age 60 if hired prior to 3-1-67) or at age 55 on a reduced basis.

Annual Amount - Same as regular retirement based on service and average final compensation at time of termination.

Duty Disability Retirement

Eligibility - No age or service requirements.

Annual Amount - 40% of average final compensation, reduced if degree of disability is less than total disability.

Non-Duty Disability Retirement

Eligibility - Any age with 15 years of service.

Annual Amount - 2% of average final compensation for each full year of service, plus 1/12 of 2% for each full month of service due to a partial year of service to a maximum of 40% of AFC. Amount is reduced if degree of disability is less than total disability.

SUMMARY OF BENEFIT PROVISIONS EVALUATED OR CONSIDERED

(DECEMBER 31, 2011)

Duty Death Before Retirement

Eligibility - No age or service requirements.

Annual Amount - 20% of average final compensation to an eligible spouse. Payments cease upon death. If there is no eligible spouse, accumulated employee contributions are paid to designated beneficiary. For members eligible under age and service conditions, the benefit is the amount the spouse would have received as a joint annuitant under normal or early retirement conditions.

Non-Duty Death Before Retirement

Eligibility - Any age with 15 years of service.

Annual Amount - Same as duty death.

Post-Retirement Adjustments

Pensions may be adjusted annually (in January) for changes in the Consumer Price Index. Maximum adjustment is 4% per year compounded. The first adjustment is made one year following retirement for those age 65 (60 for pre 3-1-67 hires) or those awarded disability allowances. For all others, the first adjustment is made no earlier than 4 years following retirement.

Post-Retirement Death Benefit

Eligibility – Retiree currently collecting pension benefits from the System.

Amount – A one-time payment of \$5,000 payable upon the death of the retiree. This benefit is payable only upon the death of the retiree, and is payable to the designated beneficiary.

Member Contributions

6% of annual pay.

Employer Contributions

7% of annual payroll effective March 2, 2001 – December 31, 2005.

The actuarially determined contribution rate (up to a maximum of 10% of pay) effective January 1, 2006.

Partial Lump Sum Payment Option

Members who are eligible for Regular Retirement may elect this optional form of payment, which allows for cash at retirement of up to \$30,000. Any remaining monthly retirement benefit is reduced actuarially to reflect the payment of cash at retirement.

**SCHEDULE OF RETIRANTS AND BENEFICIARIES
AS OF THE VALUATION DATE**

Valuation Date	No. of Pension Recipients				Total Annual Pensions ⁽²⁾	% of Payroll	Average Annual Pension	% Incr. in Total Pensions
	Service	Disability	Survivor	Total				
Dec. 31								
1992	635	49	203	887	\$ 5,275,616	8.6 %	\$ 5,948	3.8 %
1993	622	53	203	878	5,393,539	8.1	6,143	2.2
1994	621	51	204	876	5,759,562	8.2	6,575	6.8
1995	630	54	198	882	6,131,477	8.8	6,952	5.7
1996	634	55	195	884	6,507,720	9.2	7,362	6.1
1997	634	54	200	888	6,818,103	9.1	7,678	4.8
1998	633	56	202	891	7,134,692	9.0	8,008	4.6
1999	643	56	202	901	7,470,215	9.2	8,291	4.7
2000 ⁽¹⁾	646	61	203	910	9,188,323	11.4	10,097	23.0
2001	694	63	205	962	10,386,513	12.4	10,797	13.0
2002	725	65	210	1000	11,261,772	13.0	11,262	8.4
2003	731	68	207	1006	11,972,938	14.0	11,902	6.3
2004	773	66	207	1046	13,038,432	14.7	12,465	8.9
2005	796	67	213	1076	14,355,655	15.7	13,342	10.1
2006	823	69	221	1,113	15,766,306	16.5	14,166	9.8
2007	854	66	233	1,153	17,117,037	17.2	14,846	8.6
2008	894	59	225	1,178	18,459,873	17.5	15,671	7.8
2009	936	56	226	1,218	19,673,159	17.8	16,152	6.6
2010	995	59	229	1,283	21,945,667	21.3	17,105	11.6
2011	1,018	56	225	1,299	22,946,844	21.0	17,665	4.6

(1) Reflects a one-time increase resulting from purchasing power study.

(2) Annual pension amounts shown above are reported to the actuary by the City and reflect annual pension payments as of the indicated valuation date.

SCHEDULE OF ACTIVE AND INACTIVE MEMBER VALUATION DATA

Valuation Date Dec. 31	Number of		Annual Payroll ⁽¹⁾	Active Member Averages			Ratio of Active to Retired Members	% Increase/ (Decrease) in Avg Pay
	Active Members	Inactive Members		Age	Service	Pay		
1991	2,452	28	\$57,850	39.9 yrs.	9.0 yrs.	\$23,593	2.7	3.8 %
1992	2,496	26	61,028	40.4	9.3	24,450	2.8	3.6
1993	2,520	15	66,278	40.9	9.5	26,301	2.9	7.6
1994	2,492	14	70,151	41.6	10.0	28,150	2.8	7.0
1995	2,428	16	69,754	42.2	10.5	28,729	2.8	2.1
1996	2,401	17	70,972	42.8	10.9	29,559	2.7	2.9
1997	2,418	19	74,752	43.3	11.1	30,908	2.7	4.6
1998	2,404	25	79,195	43.7	11.6	32,929	2.7	6.5
1999	2,453	36	80,897	43.8	11.6	32,979	2.7	0.2
2000	2,454	41	80,503	44.0	11.6	32,805	2.7	(0.5)
2001	2,454	49	83,862	44.0	11.4	34,174	2.6	4.2
2002	2,374	55	86,428	44.5	11.7	36,406	2.4	6.5
2003	2,290	61	85,666	45.2	12.3	37,409	2.3	2.8
2004	2,302	54	88,866	45.2	12.3	38,604	2.2	3.2
2005	2,312	58	91,641	45.5	12.3	39,637	2.1	2.7
2006	2,353	62	95,504	45.5	12.1	40,588	2.1	2.4
2007	2,380	66	99,574	45.5	12.0	41,838	2.1	3.1
2008	2,422	71	105,566	45.8	11.9	43,586	2.1	4.2
2009	2,380	73	110,408	46.3	12.3	46,390	2.0	6.4
2010	2,304	81	102,915	46.4	12.3	44,668	1.8	(3.7)
2011	2,398	75	109,293	46.3	12.1	45,577	1.8	2.0

(1) In thousands of dollars.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial Cost Method. The actuarial cost method is a procedure for allocating the actuarial present value of pension plan benefits and expenses to time periods. The method used for the valuation is known as the individual entry-age actuarial cost method and has the following characteristics.

- (i) The annual normal costs for each individual active member, payable from the date of employment to the date of retirement, are sufficient to accumulate the value of the member's pension at time of retirement.
- (ii) Each annual normal cost is a constant percentage of the member's year by year projected compensation.

The entry-age actuarial cost method allocates the actuarial present value of each member's projected benefits on a level basis over the member's compensation between the entry age of the member and the assumed exit ages.

The portion of the actuarial present value allocated to the valuation year is called the normal cost. The portion of the actuarial present value not provided for by the actuarial present value of future normal costs is called the actuarial accrued liability. Deducting System assets from the actuarial accrued liability determines the unfunded actuarial accrued liability.

Experience Gains and Losses. Experience gains and losses are the difference between actual experience and the experience anticipated by the actuarial assumptions during the period between two actuarial valuation dates. The recognition of gains and losses is based on the provisions of the Retirement System ordinance.

Asset Valuation Method. The funding value of assets recognizes assumed investment income fully each year. Differences between actual and assumed investment income are phased-in over a closed 4-year period. During periods when investment performance exceeds the assumed rate, funding value of assets will tend to be lower than market value. During periods when investment performance is less than the assumed rate, funding value of assets will tend to be greater than market value. The funding value of assets is unbiased with respect to market value. At any time it may be either greater or less than market value. If assumed rates are exactly realized for 4 consecutive years, it will become equal to market value.

Actuarial Assumptions Disclosure. The actuarial assumptions used in this valuation of the System were adopted by the Retirement Board based on recommendations made by the actuary. Except where noted, the assumptions used in this report were first used in the December 31, 2005 actuarial valuation of the Plan.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Investment Return (net of expenses). The rate of investment return assumed in the valuation was eight percent (8.0%) per year, compounded annually.

Wage Inflation. The wage inflation rate assumed in this valuation was 4.5% per year. The wage inflation rate is defined to be the portion of total pay increases for an individual that are due to macroeconomic forces including productivity, price inflation, and labor market conditions. The wage inflation rate does not include pay changes related to individual merit and seniority effects. The assumed real rate of return over wage inflation is 3.5% per year.

Salary Increase Rates. These assumptions are used to project current pays to those which will determine average final compensation.

Sample Ages	Annual Rate of Salary Increase			
	Inflation Component	Productivity	Merit and Longevity	Total
20	4.00 %	0.50 %	3.80 %	8.30 %
25	4.00	0.50	3.10	7.60
30	4.00	0.50	2.70	7.20
35	4.00	0.50	2.40	6.90
40	4.00	0.50	2.10	6.60
45	4.00	0.50	1.70	6.20
50	4.00	0.50	1.10	5.60
55	4.00	0.50	0.70	5.20
60	4.00	0.50	0.20	4.70
65	4.00	0.50	0.00	4.50

For purposes of financing the unfunded liabilities, total payroll is assumed to grow at the wage inflation rate, 4.5% per year.

Price inflation. The assumed rate of price inflation used in this valuation was 4.0% per year.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Mortality Table. The mortality assumption is used to measure the probabilities of a member dying before retirement and the probability of each benefit payment being made. The 1994 Group Annuity mortality table set forward 1 year for women and 3 years for men was used in this valuation of the System. The rates used include no margin for future mortality improvement. Sample values are shown below. This assumption was first used in the December 31, 2005 valuation.

Sample Ages	Value at Retirement of		Future Life	
	\$1 Monthly for Life		Expectancy (Years)	
	Men	Women	Men	Women
50	\$130.37	\$139.27	27.95	33.94
55	121.75	132.99	23.52	29.24
60	111.34	124.83	19.39	24.70
65	99.69	115.07	15.66	20.46
70	86.85	103.62	12.34	16.54
75	72.81	89.91	9.40	12.90
80	59.14	74.92	7.00	9.71

Rates of Retirement. Rates of retirement are used to measure the probabilities of an eligible member retiring during the next year, and are summarized below. These rates were first used for the December 31, 2005 valuation.

Age of Member	Percent of Eligible Members Retiring During Next Year	Years of Service	Percent Retiring
50	12%	25	20%
51	8	26	12
52	8	27	12
53	8	28	12
54	8	29	12
55	8	30	12
56	8	31	12
57	8	32	12
58	8	33	12
59	8	34	12
60	8	35	12
61	8	36	12
62	20	37	12
63	8	38	12
64	8	39	12
65	55	40	100
66	25		
67	30		
68	40		
69	70		
70	100		

The service based retirement rates were applied to those members first eligible to retire under "25 and out" (30 and out for pre 3/67 hires). The age based retirement rates were applied to members retiring under either 65/5 (60/10 for pre 3/67 hires) or the Plan's early retirement conditions.

The probability of retiring at age 70 was assumed to be 100% regardless of service.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Rates of Separation from Active Membership. This assumption measures the probabilities of a member terminating employment. The rates do not apply to members who are eligible to retire.

Sample Ages	Years of Service	% of Active Members Separating within Next Year
ALL	0	30.00%
	1	20.00
	2	15.00
	3	10.00
	4	7.00
25	5 & Over	7.00
30		6.00
35		4.75
40		3.50
45		2.40
50		1.50
55		1.00
60		1.00

Rates of Disability. This assumption measures the probabilities of a member becoming disabled.

Age of Member	% of Active Members During Next Year	
	Males	Females
25	0.09%	0.05%
30	0.10	0.07
35	0.14	0.13
40	0.21	0.19
45	0.32	0.28
50	0.52	0.45
55	0.92	0.76
60	1.53	1.10

Disabled life mortality is measured by the 1994 Group Annuity Mortality Table set forward by 1 year for women and 3 years for men at time of disability. Rates of recovery from disability were assumed to be zero.

Active Member Group Size. The number of active members was assumed to remain constant.

Forfeitures. Describes the practice of terminating members electing refunds of employee contributions in lieu of Plan benefits. The assumed rate of forfeiture is described below based on hire date.

Post 3/67 hires: The rate of forfeitures is graded from 0% to 100% based on age.

Pre 4/67: The rate of forfeitures is 0%.

**ANALYSIS OF FINANCIAL EXPERIENCE
DERIVATION OF EXPERIENCE GAIN (LOSS)
FOR VALUATION YEARS 2007 - 2011**

Actual experience will never (except by coincidence) coincide exactly with assumed experience. It is hoped that gains and losses will cancel each other over a period of years, but sizable year to year fluctuations are common. Detail on the derivation of the experience gain (loss) is shown below, along with a year by year historic comparison.

	Amounts shown are expressed in thousands of dollars				
	2011	2010	2009	2008	2007
(1) UAAL* at start of year	\$ 42,103	\$ 27,290	\$ (9,430)	\$ (41,049)	\$ (19,366)
(2) Normal cost from last valuation	14,470	13,626	14,640	13,977	13,164
(3) Actual member and employer contributions	14,953	12,707	12,035	12,214	14,144
(4) Interest accrual on (1), (2) and (3)	3,349	2,220	(650)	(3,213)	(1,588)
(5) Expected UAAL before changes: (1) + (2) - (3) + (4)	44,969	30,429	(7,475)	(42,499)	(21,934)
(6) Increase due to benefit changes	0	0	0	0	0
(7) Increase due to revised actuarial assumptions	0	0	0	0	0
(8) Expected UAAL after changes: (5) + (6) + (7)	44,969	30,429	(7,475)	(42,499)	(21,934)
(9) Actual UAAL at end of year	79,423	42,103	27,290	(9,430)	(41,049)
(10) Gain (loss): (8) - (9)	(34,454)	(11,674)	(34,765)	(33,069)	19,115

* *Unfunded actuarial accrued liability (UAAL).*

A detailed analysis of gain or loss by source is not available for the years shown above.

**SCHEDULE OF
RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS
COMPARATIVE STATEMENT**

Year Ended Dec. 31	Added to Rolls		Removed from Rolls		Rolls End of Year			% Incr. In Benefits
	No.	Annual Benefits ⁽¹⁾	No.	Annual Benefits	No.	Annual Benefits	Avg. Annual Benefits	
2003	61	\$1,178,401	55	\$467,235	1,006	\$ 11,972,938	\$ 11,902	6.3 %
2004	85	1,582,646	45	517,152	1,046	13,038,432	12,465	8.9
2005	80	1,835,088	50	517,865	1,076	14,355,655	13,342	10.1
2006	85	1,978,502	48	567,851	1,113	15,766,306	14,166	9.8
2007	95	1,989,651	55	638,920	1,153	17,117,037	14,846	8.6
2008	85	2,109,746	60	766,910	1,178	18,459,873	15,671	7.8
2009	86	1,905,592	46	692,306	1,218	19,673,159	16,152	6.6
2010	120	3,059,254	55	786,746	1,283	21,945,667	17,105	11.6
2011	70	1,778,917	54	777,740	1,299	22,946,844	17,665	4.6

(1) Includes post retirement cost-of-living adjustments.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS⁽¹⁾

Actuarial Valuation Date December 31.	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Active Member Covered Payroll (c)	UAAL as a Percentage of Active Member Covered Payroll ((b-a)/c)
2001	\$372,737	\$344,597	\$(28,140)	108.2 %	\$ 83,862	(33.6) %
2002	375,382	372,560	(2,822)	100.8	86,428	(3.3)
2003	374,192	391,023	16,831	95.7	85,666	19.6
2004	381,495	415,164	33,669	91.9	88,866	37.9
2005 #	424,182	436,904	12,722	97.1	91,641	13.9
2006	476,913	457,547	(19,366)	104.2	95,504	(20.3)
2007	529,876	488,827	(41,049)	108.4	99,574	(41.2)
2008	528,664	519,234	(9,430)	101.8	105,566	(8.9)
2009	529,137	556,427	27,290	95.1	110,408	24.7
2010	524,731	566,834	42,103	92.6	102,915	40.9
2011	514,499	593,922	79,423	86.6	109,293	72.7

(1) Dollar amounts are in thousands.

Changes in methods and assumptions.

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Actuarial Valuation Date December 31,	Annual Required Contribution ⁽¹⁾
2002	\$6,352,439
2003	5,996,592
2004	6,989,274
2005	8,348,510
2006	8,323,183
2007	7,019,982
2008	5,911,702
2009	5,564,582
2010	6,077,150
2011	8,377,304

(1) For the plan year ending on the valuation date.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS**

Valuation Date	December 31, 2011
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level Percent of payroll
Amortization Period	30 years closed
Asset Valuation Method	4-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return*	8.0%
Projected Salary Increases*	4.5% - 8.3%
*Includes Wage Inflation	4.5%
Cost-of-Living Adjustments	Up to 4.0% per year

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Statistical



This section of the Oklahoma City employee Retirement System's (System) Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information say about overall financial health. This information has not been audited by the independent auditor.

Financial Trends

These schedules contain trend information to help the reader understand how the System's financial performance and well-being changed over time. The schedules include the schedule of changes in plan net assets and schedule of changes in plan net assets for the last ten years.

Benefit Information

These schedules contain data to help the reader understand how the information in the System's financial report relates to the benefits provided to members. The schedules include the schedule of benefit and refund deductions from net assets by type and the schedule of average benefit payments for the last ten years, as well as, the schedule of retired benefit type as of the actuarial date.

**SCHEDULE OF CHANGES
IN PLAN NET ASSETS
Last Ten Fiscal Years**

**OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM**

	Fiscal Year				
	2012	2011	2010	2009	2008
<u>ADDITIONS</u>					
Member contributions	\$6,741,302	\$6,284,934	\$6,455,918	\$6,520,844	\$6,163,902
Employer contributions	9,614,625	7,132,772	5,585,595	5,464,178	7,211,608
As a percentage of covered payroll (1)	8.56%	8.56%	6.77%	5.04%	6.16%
Investment income, net of expenses (2)	10,232,624	83,749,300	43,651,980	(84,311,983)	(18,921,048)
Other revenues and transfers	125,582	204,707	459,817	500,973	541,652
Total additions	26,714,133	97,371,713	56,153,310	(71,825,988)	(5,003,886)
<u>DEDUCTIONS</u>					
Benefits	23,914,174	23,286,808	21,573,879	19,693,836	18,796,264
Refunds of contributions	1,228,379	819,060	921,698	996,700	850,590
Administrative expenses	476,012	429,338	390,512	429,296	381,455
Total deductions	25,618,565	24,535,206	22,886,089	21,119,832	20,028,309
Change in plan net assets	<u>\$1,095,568</u>	<u>\$72,836,507</u>	<u>\$33,267,221</u>	<u>(\$92,945,820)</u>	<u>(\$25,032,195)</u>

	Fiscal Year				
	2007	2006	2005	2004	2003
<u>ADDITIONS</u>					
Member contributions (3)	\$5,888,169	\$5,649,836	\$5,557,320	\$5,138,821	\$5,316,661
Employer contributions (3)	8,479,329	7,837,510	6,484,268	5,995,471	6,202,490
As a percentage of covered payroll (1)	7.94%	7.12%	7.00%	7.00%	7.00%
Investment income, net of expenses (2)	67,632,169	32,771,726	33,413,551	51,221,881	22,101,375
Other revenues and transfers	196,654	158,718	188,985	140,353	120,895
Total additions	82,196,321	46,417,790	45,644,124	62,496,526	33,741,421
<u>DEDUCTIONS</u>					
Benefits	17,207,351	15,954,635	14,296,241	12,898,654	11,822,181
Refunds of contributions	730,076	770,019	994,191	1,229,398	1,018,628
Administrative expenses	446,968	480,628	909,178	211,208	285,290
Total deductions	18,384,395	17,205,282	16,199,610	14,339,260	13,126,099
Change in plan net assets	<u>\$63,811,926</u>	<u>\$29,212,508</u>	<u>\$29,444,514</u>	<u>\$48,157,266</u>	<u>\$20,615,322</u>

- (1) Beginning January 1, 2006, the employer contribution rate changed from 7.00% to 9.49%. Beginning January 1, 2007, the employer contribution rate changed from 9.49% to 7.94%. Beginning January 1, 2008, the employer contribution rate changed from 7.94% to 6.16%. Beginning July 1, 2008, the employer contribution rate changed from 6.16% to 5.04%. Beginning June 11, 2010, the employer contribution rate changed from 5.04% to 6.77%.
- (2) Investment income was significantly affected by declines in market values in 2009, 2008, 2002 and 2001 in conjunction with national economic recessions.
- (3) Due to a reduction in workforce, covered payroll decreased in fiscal year 2004 causing a reduction in member and employer contributions for that year.

**SCHEDULE OF BENEFIT AND REFUND
DEDUCTIONS FROM NET ASSETS BY TYPE
Last Ten Calendar Years**

**OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM**

<u>Year Ending (1)</u>	<u>Age & Service Benefits</u>		<u>Disability Benefits Retirants</u>		<u>Total Benefits</u>	<u>Separation Refunds</u>
	<u>Retirants</u>	<u>Survivors</u>	<u>Duty</u>	<u>Non-Duty</u>		
2011	\$19,868,406	\$2,473,567	\$246,933	\$357,938	\$22,946,844	\$1,099,826
2010	18,812,865	2,472,410	225,454	434,938	21,945,667	899,878
2009	16,753,895	2,322,037	219,526	341,310	19,636,768	947,693
2008	15,698,808	2,166,615	235,047	359,403	18,459,873	807,503
2007	14,363,581	2,110,784	242,636	400,036	17,117,037	587,439
2006	13,167,750	1,941,098	259,535	397,923	15,766,306	982,008
2005	12,015,439	1,743,710	234,736	361,770	14,355,655	725,036
2004	10,854,553	1,620,152	225,690	338,037	13,038,432	1,137,897
2003	9,845,631	1,545,198	222,811	359,298	11,972,938	943,212
2002	9,230,259	1,495,760	205,299	330,454	11,261,772	1,158,112

(1) Calendar year has been used to correspond with the actuarial analysis. Therefore, amounts will not tie to the financial statements.

**SCHEDULE OF RETIRED
MEMBERS BY BENEFIT TYPE
As of December 31, 2011**

**OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM**

Amount of Monthly Benefit	Number of Retirants	Type of Retirements (1)						Life	Death Benefit	Option Selected (2)		
		1	2	3	4	5	6			Opt. 1	Opt. 2	Opt. 3
Deferred	75	-	-	-	-	-	-	-	-	-	-	-
\$1-250	21	2	5	11	-	3	-	6	-	5	-	9
251-500	124	29	42	36	6	8	3	57	3	24	7	33
501-750	159	40	53	46	13	4	3	63	8	38	9	41
751-1,000	158	49	53	36	8	8	4	66	6	38	11	37
1,001-1,250	140	57	48	19	3	3	10	73	1	32	12	22
1,251-1,500	131	80	27	20	1	1	2	55	-	34	14	28
1,501-1,750	147	119	15	6	2	2	3	62	-	37	20	28
1,751-2,000	98	88	6	3	-	-	1	40	-	31	9	18
Over 2,000	<u>321</u>	<u>296</u>	<u>9</u>	<u>9</u>	<u>6</u>	<u>-</u>	<u>11</u>	<u>151</u>	<u>-</u>	<u>76</u>	<u>32</u>	<u>62</u>
	<u>1,374</u>	<u>760</u>	<u>258</u>	<u>186</u>	<u>39</u>	<u>29</u>	<u>37</u>	<u>573</u>	<u>18</u>	<u>315</u>	<u>114</u>	<u>278</u>

(1) Type of Retirement

- 1 - Normal retirement for age and service
- 2 - Early retirement
- 3 - Survivor payments – death after retirement
- 4 - Survivor payments - death in service
- 5 - Duty disability retirement
- 6 - Non-duty disability retirement

(2) Option Selected

- Life - Single life
- Death Benefit - 20% of average final compensation
- Opt. 1 - 100% of retiree's benefit payable to survivor
- Opt. 2 - 75% of retiree's benefit payable to survivor
- Opt. 3 - 50% of retiree's benefit payable to survivor

**SCHEDULE OF AVERAGE
BENEFIT PAYMENTS (1)
Last Ten Calendar Years**

**OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM**

	Years of Credited Service (2)					
	5-9	10-14	15-19	20-24	25-29	30+
Period 1/1/11 to 12/31/11						
Average Monthly Benefit	\$547	\$1,227	\$1,894	\$2,405	\$2,322	\$3,230
Final Average Salary	4,607	4,094	6,646	6,568	4,572	4,844
Number of Active Retirants	7	3	4	4	18	13
Period 1/1/10 to 12/31/10						
Average Monthly Benefit	\$562	\$646	\$1,235	\$1,732	\$2,182	\$2,996
Final Average Salary	3,909	3,269	4,387	4,741	4,588	4,853
Number of Active Retirants	2	9	7	8	42	24
Period 1/1/09 to 12/31/09						
Average Monthly Benefit	\$328	\$795	\$1,095	\$1,711	\$1,933	\$2,891
Final Average Salary	2,415	3,468	3,538	4,778	4,091	4,775
Number of Active Retirants	2	6	10	6	25	20
Period 1/1/08 to 12/31/08						
Average Monthly Benefit	\$431	\$616	\$983	\$1,380	\$2,084	\$3,006
Final Average Salary	3,589	3,018	3,600	4,071	4,374	4,672
Number of Active Retirants	6	5	11	7	31	8
Period 1/1/07 to 12/31/07						
Average Monthly Benefit	\$326	\$993	\$1,253	\$1,625	\$1,943	\$2,477
Final Average Salary	2,314	3,935	4,328	4,612	4,031	4,033
Number of Active Retirants	3	4	10	5	31	13
Period 1/1/06 to 12/31/06						
Average Monthly Benefit	\$414	\$860	\$1,124	\$1,524	\$1,809	\$3,812
Final Average Salary	3,548	3,742	3,953	4,029	3,756	5,623
Number of Active Retirants	3	6	8	5	36	7
Period 1/1/05 to 12/31/05						
Average Monthly Benefit	\$332	\$495	\$1,073	\$1,710	\$1,847	\$2,904
Final Average Salary	2,725	2,810	3,728	4,504	3,828	4,605
Number of Active Retirants	5	5	2	6	25	14
Period 1/1/04 to 12/31/04						
Average Monthly Benefit	\$286	\$519	\$1,060	\$1,102	\$1,720	\$2,580
Final Average Salary	2,299	2,853	3,723	3,205	3,662	4,047
Number of Active Retirants	3	6	8	7	27	12
Period 1/1/03 to 12/31/03						
Average Monthly Benefit	\$269	\$739	\$1,111	\$1,392	\$1,691	\$2,547
Final Average Salary	2,113	3,011	3,407	3,582	3,581	3,902
Number of Active Retirants	4	3	2	6	19	10
Period 1/1/02 to 12/31/02						
Average Monthly Benefit	\$309	\$520	\$879	\$1,372	\$1,692	\$1,955
Final Average Salary	2,403	2,629	2,978	3,556	3,479	3,103
Number of Active Retirants	6	6	10	6	17	14

(1) Retirement Effective Dates 1/1/11 to 12/31/02

(2) No benefits are earned for 0-4 years of credited services.

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**Independent Accountants' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements Performed in
Accordance with *Government Auditing Standards***

Board of Trustees
Oklahoma City Employee Retirement System
Oklahoma City, Oklahoma

We have audited the financial statements of the Oklahoma City Employee Retirement System (the System), a fiduciary component unit of the City of Oklahoma City, Oklahoma (the City), as of and for the year ended June 30, 2012, and have issued our report thereon dated December 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the System is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* of the City should be read in conjunction with this report.

This report is intended solely for the information and use of the governing body, management and others within the System and the City and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

December 12, 2012